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Dwight D. Murphey, Ph. D., J.D.

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Roger Pearson
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Some Observations on Population, Ecosystems and Markets

Sidonie Chiapetta[1]
National Wildlife Federation, Washington D.C.

The current world population explosion is bringing with it a need to re-examine the relationship between economic systems, population size and available resources. Major changes in the functioning of market systems will be unavoidable as population pressures on resources increase – and further changes will likely follow when world population eventually peaks.

Key Words: Population, carrying capacity, fertility, environmental economics

Physical scientists have been pointing out to economists at least since the 1920s that the economy is subject to the laws of physics. Physical scientists have been pointing out to economists at least since the 1920s that the economy is subject to the laws of physics.[2] When we discuss human population and the human economy we are talking about aspects of a system which is a subsidiary of two larger systems

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[1] 1400 Sixteenth St. NW, Washington D.C. 20036 Tel:(202) 797-6639

[2] Herman Daly, 1996, *Beyond Growth: the Economics of Sustainable Development*, p. 178. Daly identifies of a "fallacy of misplaced concreteness" in which laws that are accurate in describing an open system (the economy) are elevated to the level of physical laws, which describe a closed system (the universe, and for all practical purposes, the solar system). In an open system it is possible for entropy to be decreasing over some period of time (the decrease of entropy is the increase of organization, or what we would call production). In a closed system, entropy is always increasing. By misapplying economic observations, sometimes called laws, at a level of scale to which they are not appropriate, people have come to believe, and society now acts on the belief, that unending growth in physical production is possible. One illustration of the fallacy of misplaced concreteness is drawn from the work of Frederick Soddy, chemist and economist, who pointed out that a debt earning compound interest can eventually grow to be infinitely large. This is perfectly possible in mathematics but in the physical world such a debt would be unpayable. "Debt can endure forever, wealth cannot, because its physical dimension is subject to the destructive force of entropy," Daly comments. Human society is based on many constructs that are just as "unnatural" as compound interest on debt, and such concepts are not harmful when applied at the right level of scale. The danger is that as the economy grows to challenge the physical limits of the ecosystem, the laws of the economy are applied at the wrong level of scale. In the end, something must give.

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in turn: namely, the ecosystem and the physical universe. The human population is now estimated at around 5.9 billion, growing at 1.4 percent per year.[3] Some hold that limits to population growth reside only in the outer reaches of physical possibility, perhaps in the number of atoms available for appropriation into human flesh.[4] Some see it much closer, in the confines of the ecosystem. In this article I will concentrate on the second point of view.

Population Carrying Capacity

The question of how many people can be accommodated on Earth was reviewed exhaustively by Joel E. Cohen in his 1995 magnum opus *How Many People Can the Earth Support?* In 532 pages he steadfastly, and justifiably, refuses to answer the question posed in his title, though he does provide an excellent conceptual model for future scholars wishing to think about the problem; this is a model of a tetrahedral pyramid, having at each apex one of the following four: culture, economy, environment, population.[5] All four interact; no good predictions can be made about the future trajectory of any one without acknowledging the other three. He also provides a very useful survey of published estimates of global human carrying capacity, starting in the year 1679. More than half of the 66 estimates Cohen considers, taking the highest value for those that present a range, fall between 4 and 16 billion people.[6] Most take food production, or photosynthetic capacity, as the limiting factor. Assumptions about how long the maximum populations are expected to be sustained are usually vague or unstated. Assumptions about average standard of living vary, and are usually restricted to quality of diet. To illustrate the pitfalls of carrying capacity estimation, Cohen develops scenarios assuming that the availability of fresh water is the immediate limiting factor to population.

He makes fixed assumptions about the amount of water required

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[3] Population Reference Bureau, 1998, *World Population Data Chart*, 1998.

[4] Julian Simon, 1996, *The Ultimate Resource 2* p. 73. Simon predicts "no practical limit to improving our lot forever (or for at least seven billion years)." Allen Bartlett, a professor of physics at the University of Colorado at Boulder, has shown that if fertility continues on its current trend seven billion years of human improvement would have us outnumbering the atoms in the universe.

[5] Joel E. Cohen, 1995, *How Many People Can the Earth Support?* p. 389

[6] Ibid. p 215.

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to grow wheat under irrigation, and the grain-equivalents for a diet including meat; he assumes that the water supply is constant, without ahistorical droughts or floods. He varies the following assumptions: average diet (vegetarian, or substantial amounts of meat), the amount of food that is wasted before it can be consumed (10 to 40 percent), and the amount of water that can be captured for agriculture and domestic use (from 100 to less than 4 percent). The range of possible maximum populations he arrives at is from 137.5 billion to 1.1 billion. This level of uncertainty would be discouraging, except that it is possible to discard many of the scenarios as completely unrealistic (which Cohen freely admits). For example, in 1992 it was estimated that 23 percent of renewable fresh water harvested is used for industrial purposes.[7] Cohen examines several scenarios in which there is no water available to industry at all. Every bit of precipitation falling on land, no matter how remote, is harvested for irrigated agriculture and domestic use. Nothing other than food crops is irrigated (no fibers, no coffee and tobacco, no crops for essential oils, spices or alcohol). Rivers do not flow to the sea under these scenarios, and there are no wetlands; the only water reaching the sea is wastewater from human homes and fields. Discarding the set of most unrealistic scenarios brings us down to a "maximum maximum" of 47 billion. This level of population could be sustained under the following assumptions: no meat in the diet, wheat production worldwide is approximately four times more water-efficient than it is now in the U.S. (This translates to an assumption that every farmer has access to the best hybrid seed, fertilizers, etc.) and the fraction of food wasted before it can be consumed is between a third and a fourth of wastage observed today. As before, nothing is allocated for industry, or for non-food crops. It is assumed that fertile arable land is unlimited, and that there is perfect mobility of water and of food produced from places of surplus to places of deficit. If we continue to eliminate unrealistic scenarios until we arrive at a point where there is some water left in-stream for recreation, industry, or other uses (a scenario similar to observed levels of water capture in the U.S. today) the "maximum maximum" is 10.4 billion well-fed

[7] World Resources Institute, 1993, *World Resources 1992-93*, cited in Sustaining Water, 1993, Population Action International.

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vegetarians, under conditions of minimum wastage of food, or 7.3 billion low-waste meat-eaters. Assumptions of perfect water and food mobility continue to apply, as does the assumption of very water-efficient irrigated agriculture.

How likely is it that nations and localities will cease water hoarding and will submit to a completely free market in water? These scenarios also assume perfect markets in food supply and a completely egalitarian distribution of food. How likely is it that the human polity will be "fixed" so as to fill every belly according to its need, wasting nothing on war and luxury? Then again, Cohen limits human water harvesting to the land. Could we not harvest rainfall over the seas? What other problems would this bring in its wake? (see note 11 below)

Such thought-experiments, though filled with uncertainty, are no more uncertain than observed population trends. The United Nations Population Division's most recent projection is that population will be between 7.7 and 11.2 billion in the year 2050 and between 3.6 and 27 billion in the year 2150. In its medium fertility scenario, often considered the most likely, the population "would ultimately stabilize at nearly 11 billion persons around 2200."[8] It should be noted that the UN projections carry no assumptions about the long-term sustainability or standard of living at any level of population. They project population purely on fertility and mortality trends. All their scenarios assume continued, modest increases in life span, consistent with recent experience. Under this scenario it is *assumed* that a constant fertility rate would be reached by the year 2055. At that point the total difference between the lowest and the highest fertility scenario is just one child per family. If human fertility stayed constant at its 1995 level (approximately 3.1 children per woman[9]) population would be on track to reach 296 billion in the year 2150. That is more than twice as many people as could be fed with total human appropriation of all renewable fresh water on land, according to the scenarios developed by Cohen.

If it is so difficult to predict future population, and to calculate what population may be sustained comfortably for a long time, how

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[8] United Nations, New York, 1998 *World Population Projections to 2150* which is summarized at: http://www.undp.org/popin/wdtrends/execsum.htm

[9] Population Resources Bureau, 1995, *World Population Data Chart.*

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should we try to think about the future? Some would argue that we need not concern ourselves about carrying capacity; that it is infinitely expandable, and that the more people there are, the more invention will take place. The late Julian Simon placed his faith in the free market, and political freedom, arguing that the "ultimate resource" is the inventiveness of the human mind, and that we need to maximize it, both in quantity and in quality. Others advocate caution, pointing out that relationships which hold good at one level of scale (the scale of the human economy relative to the ecosystem) are not guaranteed to hold good at every level. If ecological thresholds, whether local or global, are crossed, leading to effects that require massive adjustments in human behavior, the adaptation will be more difficult, and take longer the more people there are. It is also true that the faster the human economy grows relative to the ecosystem, the less time there is to identify ecosystem failures, and find solutions.[10] Thus, the rate at which the human population and economy grows is in some ways just as important as the ultimate level at which it stabilizes. Our position relative to the ecosystem is worth looking into.

Environment

Many scholars have made the point that everything in the ecosystem is linked to everything else. The foundation on which all human culture rests is the smooth functioning of the global ecosystem, consisting of the webs of matter and energy that include photosynthesis, decay, thermal, hydrologic and nutrient cycles, and much more. Whether or not you believe that human culture is *limited* by the ecosystem, you can acknowledge that it is *founded* on it. The ecosystem, an abstraction which subsumes familiar resources and processes, has been relatively invisible to humans, and has only been

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[10] Paul Brown, 1996, *Global Warming*. p 81-82. One example is the warming of the oceans. Currently, the oceans are a massive carbon sink, absorbing an estimated 3 **billion tonnes** more carbon dioxide per year than they release into the atmosphere. However, the oceans' ability to store carbon is a function of temperature — capacity is larger at lower temperatures. The oceans are warming by as much as one degree centigrade per year in some places. If there is a threshold temperature beyond which the oceans become a net source of CO2 instead of a sink, this could accelerate warming trends substantially. Even if they remain a sink, but with a reduced capacity, this will impact the rate of CO2 accumulation in the atmosphere, and the speed of climate change.

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studied by scientists in its own right since the beginning of this century. The ecosystem becomes visible to society at large only when it fails us for some reason. From the human point of view, ecosystem functions and failures can be roughly classified into two categories: productive and absorptive.[11] Productive functions include all the processes that contribute to our food supply, and provide us with physical materials. Absorptive, or "buffering," functions are the absorption of waste products (including heat) from the human economy and the evolutionary process – both in our own and other species – which provides the genetic diversity necessary to adapt to insults or seize opportunities of various kinds. Perhaps it is useful to provide a few illustrative examples of ecosystem functions and failures. The two that follow are of absorptive failure.

U.S. farmers compensate for the progressive degradation of the soil with fertilizers. More fertilizer than is needed for crops is applied, because some portion of it is bound to be washed away or carried beyond the root zone by infiltration. The excess fertilizer is a waste product. This fact was never of any moment until the nutrient-buffering capacity of some watersheds began to fail in the 1980s, which was signaled by explosions in the populations ("blooms") of harmful algae in rivers and coastal waters. Harmful algae include the carnivorous dinoflagellate Pfiesteria Piscicida, known as the "cell from hell."[12] The algae are of note because, even when they do not prey directly on commercial fish species (as does Pfiesteria) they create such an oxygen debt in the waters that commercial species are forced out, lest they suffocate. Nutrient run-off from the Mississippi and consequent harmful algae blooms are blamed for a "dead zone" of 6,000 square miles in the Gulf of Mexico.[13]

Another example of anthropogenic ecosystem failure comes from Egypt. Egyptian farmers traditionally relied on the annual flooding of the Nile to add organic matter to the soil, and to flush

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[11] Herman E. Daly, 1993, Introduction to Essays toward a Steady-State Economy, in *Valuing the Earth, Economics, Ecology, Ethics p. 34.*

[12]11 Theodore J. Smayda, 1997, *Bloom dynamics: Physiology, behavior, trophic effects,* in *Limnol.Oceanogr.*, 42 (5, part 2) 1132-1136. Smayda notes that a single toxic algae bloom cost shellfish producers $60 million, and repeated blooms over the course of 18 years in the Seto Inland Sea of Japan killed farmed fish with a total value of more than $100 million.

[13] Margaret Kriz, 1998, *Fish and Foul*, in *The National Journal* 28/98, pp. 450-453.

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away the salts that accumulated as a result of surface irrigation in the rest of the year. The accumulation of salts was not even apparent until the construction of the Aswan dam, which eliminated the annual floods. Since the dam was constructed, large swathes of agricultural land have been ruined by salt accumulation.[14]

Both of these examples of a failure of absorptive capacity result from human efforts to increase productive capacity (nutrients in the soil have been used up, so we fertilize; local supplies of water and energy are insufficient, so we impound rivers). Failures of absorptive capacity can then feed back as further impairment of productive capacity. This is true both in the case of salinization of irrigated fields, and nutrient run-off and algae blooms. Indeed, it is the best farmland, and the most productive marine ecosystems that are damaged.[15] Human inventiveness has allowed us to push back the apparent production-limits of the ecosystem, but some observers fear that we have only achieved this result by putting too much stress on the absorptive side of the balance. The ultimate example of this load-shifting is global climate instability, in which our determination to bust the energy budget imposed on other species by the diurnal and seasonal rationing of the sun's light may yet lead us to a buckling of the isotherms never experienced by humans.[16]

The traditional debate over the carrying capacity of the environment has been between the Malthusian/apocalyptics and the cornucopians. The Malthusians have argued that the increasing scale of human impacts on the environment will eventually bring an overshoot and collapse of human numbers, or human quality of life, or both.[17] The cornucopians have replied that materials may be substituted for other materials, that improvements in existing technologies will reduce waste, and that the invention of new technologies (such as genetic engineering and cold fusion) will always compensate or more than compensate for the progressive growth of

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[14] Joel E. Cohen, 1995, *How Many People Can the Earth Support?* p.322.

[15] Don Hinrichsen, 1997, *Coastal Waters of the World; threats, trends and strategies*, p. 18. Hinrichsen points out that globally, nearly two-thirds of fish harvested depended on a coastal ecosystem for some portion of their life cycle. If we assume that the easiest way to harvest off-shore rainfall is to anchor collection vessels near to land, what must be sacrificed?

[16] Ross Gelbspan, 1997, *The Heat is On*, p.6.

[17] Donella Meadows, Denis Meadows, Jorgen Randers, 1992, *Beyond the Limits.*

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human numbers and appetites.

One refinement of the latter view is that humanity will intensify its investment in solving the problem of waste disposal. This from Paul Harrison: "Technology might be able to increase waste-carrying capacity. We can lime acid soils and lakes. We might one day fertilize the open seas to increase uptake of CO2 by plankton. We might breed bacteria that can eat up plastics and oil."[18] The investments we make in biomedical research to counter emergent diseases, such as hemorrhagic fevers and HIV, would also fall into this category. Harrison goes on to make a precautionary argument that since we do not fully understand how ecological systems function we should prefer to conserve them, rather than committing ourselves in advance to an unending suite of rescue operations with unforeseeable outcomes.

In a more long-term perspective, some see the invisible hand of the market coming to operate on the division of human labor, with our without our taking a conscious decision in the matter. In this view, the energy devoted to defensive activities, such as those outlined by Paul Harrison above, will rise until it assumes parity with new productive activity, or even overtakes it. Humans will strive to perform the services[19] once provided free by the ecosystem, monetizing them, allocating them by scarcity apportionment, perhaps, who knows, even marketing them in competition with one another – as "eau naturelle de source" now competes with "Crystal Spring Water," where once there was merely potable water, a free access good.

Human Culture as an Ecosystem

Herman Daly points out that the shift from a productive to a defensive mode of operation is a tendency commonly observed in ecosystems: "On the question of maximizing versus minimizing the flow of production, there is an interesting analogy with ecological

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[18] Paul Harrison, 1992, *The Third Revolution*, p 244.

[19] "Ecosystem services" include such things as flood control, the replenishment of organic carbon in the soil, the provision of wild hybrids for crop breeding, isolating populations of human pathogens and thus attenuating their virulence, storing heat and redistributing it around the surface of the planet for a more moderate overall temperature regime – an important task currently performed by the oceans.

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succession. Young ecosystems (early stages of succession[20]) are characterized by a high production efficiency, and mature ecosystems (late stages of succession) are characterized by a high maintenance efficiency." In other words, a young forest gives a large annual volume of fixed carbon per unit of existing biomass, and is dedicated to colonizing more topsoil, catching more sunlight and harvesting more water and nutrients. A mature forest maintains itself with a small increment of fixed carbon per unit of existing biomass, and is devoted to a very slow but intense turf battle among the various species, usually characterized by increasing species richness, intense recycling of nutrients, high percentage capture of incident sunlight and the plugging of tiny gaps in ecological space by species ever more specialized to particular sorts of food, or particular reproductive strategies. "If we conceive of the human economy as an ecosystem moving from an earlier to a later stage of succession (from the "cowboy economy" to the "spaceman economy" as Boulding puts it), then we would expect, by analogy, that production, growth and quantity would be replaced by protective maintenance, stability and quality as the major social goals."[21]

Another feature of mature ecosystems relevant to this analogy is the fact that they contain more information, in the form of genetic diversity, than young ecosystems. This is what makes them efficient – millions of years of evolution of organisms and species to occupy every available bit of ecological space; all of this evolutionary trial and error being encoded in the genetic material of its most successful heirs. Human culture cannot even accurately estimate the level of information contained in the world genome, or how fast it is being destroyed. The attempt to chart our own human genome has only just begun.

Information bears on the development of our economy in several ways. For an ecosystem, genetic diversity is the currency of information; in the human economy its presence is more multifarious. In the classic presentation, human impacts on the environment are a

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[20] Ecological succession is the progress of a community of species through time, embracing the alteration of the physical environment by those species, the resulting introduction of new species to the community, and the rise and fall of different dominant species.

[21] Daly 1993, see note 1. supra.

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function of the total population, its per capita consumption or affluence, and its technology. This is often expressed in the so-called "IPAT" equation[22]:

Impact= f (Population, Affluence, Technology)

Information is represented in the third term, Technology. The equation tells us that our impact on the environment will be proportional to our numbers, to the amount each one of us consumes and produces, and the nature of the technology used to generate that individual consumption or production. Wasteful technologies will increase *I* without increasing *A* very much. Efficient technologies can increase *A* without raising the value of *I* much. We need to understand that this term not only represents the physical technology of machines for converting energy from one form into another, for processing materials and so forth; it stands for the economic and also cultural systems that determine what physical technology is available where, to whom, and for what. Our centuries of learning how to organize ourselves to manipulate the physical world are our informational or technological inheritance, and this inheritance also includes the genetic diversity of the species around us, a fact we are only now starting to apprehend. As the richness of our "technology genome" grows, we should be able, if the analogy holds, to devise ways of minimizing waste of all kinds (waste of physical resources, waste of energy, waste of human potential) thus achieving the intense resource-efficiency of a mature ecosystem.

Markets and systems for regulating them are a large part of the "cultural technology" we will use as our population grows. Within the past few decades, markets have sprung up where none were before; two examples are markets in the apportionment of pollutable airspace and in the formal division of sustainable yield from fisheries.[23] In these "ecological services markets"[24] the items traded are permits to

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[22] Ehrlich and Ehrlich, 1990, *The Population Explosion*, p.58

[23] T.H. Tietenberg, 1993, Using Economic Incentives to Maintain Our Environment, in *Valuing the Earth: Economics, Ecology, Ethics.*

[24] I do not mean to imply that enclosure and creation of markets is the only rational way to create incentives for conservation, but it may be needed most in the area of conserving absorptive functions. Where there are markets for natural resources, but the resources are being wasted because of poor price signals, important options for promoting

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exploit, or depletion quotas, which represent a composite of economic and environmental information – about the sustainable yield of the fishery at any given time, for example, the price of fish, and the marginal cost of adding new boats to the fishing fleet. The human preference for consumption now as opposed to consumption later is an element of the price, allowing the players in each market to maximize their own utility, while the utility of society as a whole (its future need for fish, its need for clean air) is also served. Costs that were never reflected in price (externalities) are internalized. The interesting thing about these markets is that they depend on a regulatory framework. This is the reverse of the historic trend, in which a market appears, and then is regulated. Before such markets can exist, there must be a common, *enforceable* agreement that sets out, for example, the maximum amount of pollution that will be tolerated, the maximum amount of fish that may be harvested. This is analogous to an enclosure movement, but the ownership established (or perhaps "made effective") is public, not private. The creation of market frameworks where none existed before is not an alternative to environmental regulation, but a new instrument in the arsenal of the regulator. It may take many decades for the number and sophistication of such markets to approximate what we find in the financial services sector.

The items traded in the financial services sector are even more abstract than would be found in an ecological services market, but the value of transactions in the financial economy exceeds by twenty to fifty times that in the underlying "real economy" where physically real goods and services are exchanged.[25] There is a wealth of information that feeds into an interest rate or the price of a financial instrument; there is a whole industry devoted to tracking and disseminating that information. In order to use market-based incentives successfully to conserve ecosystem functions, we will need the same intensity of information about those functions. The advantage we enjoy in this endeavor is that much of the infrastructure of economic theory and

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better resource management include: better tax policy, trade policy, local stakeholder negotiations and user fees are important options for promoting better resource management. See Thomas and Belt 1997 *Growth and Environment Allies or Foes?* in Vol. 22, No. 3 of the present publication for an overview of these options.

[25] Joel Kurtzman, 1993, *The Death of Money* pp. 12, 202.

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practice needed to run the markets already exists (in some places) and can be adapted; it does not have to be invented anew. The disadvantages are that many of the ecosystem functions to be conserved are not well understood, that funding to do the needed research is scarce, that regulatory structures will, in many cases, have to be transnational, and that there will be tremendous political opposition to some of the enclosures that will be required. The fight currently in train over the enclosure of carbon emission-rights, through the negotiation of the Kyoto protocol is a good example.

A more sophisticated understanding of ownership will be key to many of the enclosures. Ownership is increasingly viewed as a bundle of different rights that can be separated and exercised by different people at the same time. When the current use of land is separated from its potential future use (the right to develop it), and the development rights are bought by a land trust, the owners of small farms can realize a smaller, but certain, present gain in exchange for giving up the uncertain future offers they may receive to purchase their land for development. They may still sell the land, at its now lower market value, or they may keep it. All they have alienated is their development rights. In this way, society can place a money value on the preservation of a wild or rural landscape, and conserve the landscape without totally diverting it from marketable production. Many believe that our ability to find ways to place a money value on *intangibles*, or to do away with government interventions that keep their prices artificially low, will be a great determinant of our ability to conserve them.

However, there is not total agreement on this point. Some argue that markets are inherently the wrong structures for dealing with certain functions that are now outside the formal economy, and that "marketizing" them is morally wrong, or results in further maltreatment of the resource. The movement to enclose genetic information as a form of private intellectual property is a good example of the marketizing approach.[26] In opposition to this there is a meeting of the minds between pro-life thinkers (who object on the grounds that this "intellectual property" belongs to God) and environmentalists, who feel that it is a public good, belonging to

[26] Andrew Kimbrell, 1994, *The Human Body Shop*, pp.188-202

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everyone, or to the people of the region that contains the genetic wealth (mostly tropical developing countries).[27] It may also be argued that the resource is so uncharted, so huge, and is thought to be disappearing so rapidly that if we wait for the evolution of a properly regulated global market with sufficiently strong incentives to conserve the resource, too much will have been lost.

An example of an existing market which often functions to the detriment of the "resource" is the labor market. When work is transferred from what Hazel Henderson has called 'the love economy'[28] into the formal economy, workers can suffer. This is especially true for women workers in the developing countries, who can be shifted from subsistence agriculture, in which they attend directly to the needs of their families, though their work is unpaid, into low-paying jobs in the cash economy. There, the utility they generate may be less,[29] even though the visible economic value of their work may go from zero to some positive number.[30] In societies which, for religious or other reasons, do not value the work of women highly, the opportunity and the investment that would make women highly productive has been withheld from them. Women's relative consequent invisibility in national income accounts, as currently calculated, is then a disincentive for governments to invest in them, despite the blandishments of international development organizations.[31] One very important side-effect of this neglect is continued high fertility in the developing countries where women's

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[27] Vandana Shiva, 199, *Bioethics: A Third World Issue.* http://www.geocities.com/Athens/1527/bioethics.html

[28] Hazel Henderson, 1996, *Building a Win-Win World* p.57-58 The love economy (or, for the squeamish, "the socially cooperative economy") is the totality of unpaid work that undergirds the cash economy. It includes barter, manufacture for use rather than for sale, subsistence agriculture, child-care, unpaid housework and volunteer work.

[29] Nafis Sadik, 1994, *Investing in Women, the Focus of the 90's*, p. 218 in *Beyond the Numbers: a Reader on Population, Consumption and the Environment*, Ed. Mazur.

[30] If they find a job in the formal sector. Many women who move from the subsistence sector enter the cash economy in the informal sector, and their paid work never shows up in national indicators. For more information on this, see Sharmila Joshi, *India's 'Nowhere' Girls* in *People and the Planet*, Vol.7 No.3.

[31] Fortunately there is a growing movement to correct systems of national accounts (SNA). Most of the activity in this area has focused on getting better assimilation of natural resources stocks and flows in SNAs. One detailed case study is World Resources Institute, 1991, *Accounts Overdue: Natural Resource Depreciation in Costa Rica.*

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status is low.[32] [33]

Women's Interests

Women's interests in the limits-to-growth debate tend to be somewhat different from men's. As noted above, many women in the poorest countries have a more tenuous stake in the formal economy, and even in the U.S. women continue to earn twenty percent less than men on an hourly basis.[34] Women in the developing countries especially have a pressing stake in the health of their local environments; that is, in easy access to potable water, fuelwood and biomass. The ecofeminist movement is based in the perceived identity of women's interests with the natural environment, and has its ecological analogue in "Gaia" theory. The feminist movement has been split over the question of population growth and calls for population stabilization. The divide between feminists who emphasized opposition to coercive population control policies and feminists who emphasized universal access to voluntary reproductive health services was largely resolved at the 1994 United Nations International Conference on Population and Development (ICPD). The ICPD Programme of Action, which was agreed to by at least 179 governments, contains no demographic targets relating to fertility rates, or numbers of "contraceptive acceptors". Such targets had been criticized as encouraging coercive practices in the national family planning programs of some nations. Instead, the measurable goals in the document relate to universal access to voluntary reproductive health services, reducing rates of maternal and child morbidity and mortality, and funds devoted to those ends.[35] The evidence of falling

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[32] Sadik, 1994 p. 210.

[33] Anil Agarwal, 1998, *Why the Girls of Syuta Drop Out of School*, in *People and the Planet*, vol. 3 no. 7. In arid and deforested regions of India (the Himalayas, Gujarat, and Rajahstan), women spend 6-10 hours a day gathering fuelwood, fodder and water. Drop-out rates for girls were much higher than for boys in the Himalayan community studied. By contrast, in Kerala state, where the resource base is less damaged, women spend only an hour a day gathering biomass and fetching water. Kerala also has one of the highest female literacy rates in India, and has lower than average maternal mortality and fertility. Are the Keralan girls able to stay in school because their work load is lower?

[34] U.S. Department of Labor, 1998, Women's Earnings as Percent of Men's, 1979- 1996 . U.S. Summarized at: http://www.dol.gov/dol/wb/public/wb_pubs/7996.htm

[35] United Nations, New York, 1994, A/CONF.171/13 *Report of the International Conference on Population and Development* (Cairo, 5-13 September 1994).

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fertility rates and survey data from around the world supports a view that women cannot meet their fertility goals because they lack access to reproductive health services, and that the majority of those women would like to have fewer pregnancies, not more. Services to cure infertility are also included under the rubric of the Cairo goals. In 1991 it was estimated that 100 million women around the world had an unmet need for family planning; that is, they wished to avoid another pregnancy, but were not using a reliable contraceptive method. [36] The population of women of reproductive age increases by over 20 million each year, so it is very probable that the total is higher now than in 1991.

Many argue that there is no need to justify population programs on the ground of environmental conservation – that they are justifiable purely on health and human rights grounds. The two sets of motivations (environmental conservation and women's health) lead to the same recommendations for action up to a certain point: the point where fertility goals are realized, but still exceed replacement. As a practical matter, this point of divergence may never be reached because of the large and growing unmet demand for effective contraception. If every woman alive today were able to reach her fertility goals, fertility still would not drop to replacement levels because desired family size in many countries still exceeds 2.1 children.

However, desired family size is declining worldwide, in some places rapidly.[37] There is no consensus on the reasons for this decline, but there are several theories. One of the best known is the Demographic Transition Theory, which holds that economic development depresses the demand for children by raising the costs of each child to the parents, and by increasing opportunities for women to be employed outside the home. A more recent arrival is the Economic Opportunity Theory, which holds that families respond to good times by desiring (and then having) more children, and to hard times by desiring and having fewer.[38] A third theory is that an

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[36] Steven Sinding, John Ross, Allan Rosenfield, 1994 *Seeking Common Ground, in Beyond the Numbers, p. 164.*

[37] Sadik, 1994 p. 219.

[38] Virginia Deane Abernethy, 1997, *Allowing Fertility Decline: 200 Years After Malthus's Essay on Population* in *Environmental Law*, Vol. 27 No. 4.

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immanent desire for lower fertility (though perhaps not replacement level fertility) is present everywhere, and that only the means to control fertility are lacking.[39] Public education programs can also play an important role.[40] Undoubtedly all of these theories are valid for some places and times.

Fertility Decline in Sixteen Countries

In 1998 a total of sixteen countries, all European, were either at zero population growth, or had slight negative growth. There is considerable media coverage of this topic, which has created the impression in some quarters that *world* population is declining. This is not so. The decline of fertility in the industrialized countries is more than offset by continued high fertility in the developing world. It is worth noting that even in the United Nations' "instant replacement" scenario, under which the entire world converged instantly at two children per woman in 1995, the population of the world continues to grow to 9.5 billion by the year 2150 – a 67 per cent increase from 1995.[41] This phenomenon, called population momentum, is caused by the large numbers of women just entering or about to enter their reproductive years.

Despite the fact that humanity currently adds anywhere from 80 to 90 million people per year, there is growing consternation over the local declines in fertility affecting the industrialized countries.[42] About half of the countries in NPG are in the former Soviet Union, where both fertility and life-expectancy are declining. The other half are in Western and Southern Europe. The experience of negative growth in a healthy population in peacetime is quite anomalous, so it is natural for there to be fear and questioning. To date, most public discussion of the phenomenon has been largely restricted to short

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[39] Malcolm Potts, 1997, *Sex and the Birth Rate: Human Biology, Demographic Change and Access to Fertility-Regulation Methods*, in *Population and Development Review*, Vol. 23, No. 1. pp 1-39.

[40] Peter Vaughan, Everett Rogers, Ramadhan Swalehe, 1995, *The Effects of "Twende Na Wakati" An Entertainment-Education Radio Soap Opera For Family Planning and HIV/AIDS Prevention in Tanzania: a progress report on the first year of broadcasting (1993-1994).*

[41] United Nations, New York, 1998, see note 35 supra.

[42] John Omicinski, 1998, *Cultural, population crisis in Japan harbors profound effect for U.S.*, Gannett News Service, 8/5/98.

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term considerations, such as the economic impact of an aging population in the countries concerned, rather than to the global and long term implications.

Conclusion

If we accept the ecosystem model of human culture, and if we accept that physical and biological limits to growth are real, we can predict that the growth of the production economy (which requires constantly increasing energy throughput) will eventually slow, and cease. We can predict that this will happen even though the money value of transactions in all sorts of markets may continue to grow for a long time.

In the long term, the slowing of growth may be mediated by markets of many kinds, some of which have not yet been invented, as more and more human effort is transferred from productive to defensive activities. There will be great political resistance to the enclosure of common resources that are now being wasted or destroyed. In the medium and short term it is likely that the most noticeable changes will be the result of population trends. Efforts to accommodate another two to twenty-one billion persons in the standing stock of humans will cause massive changes; another whole series of simultaneous changes will be caused by a gradual deceleration, perhaps a cessation, of population growth.

The future quality of life will depend on our ability to negotiate these transitions early rather than late, and to achieve stasis at a smaller population rather than a larger one.

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Permissive Immigration vs. "Global Peace" in the 21st Century

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The liberal internationalist tradition has historically looked askance at both the nation-state and its nationalist constituencies. Their belief in internationalism has been associated with opposition to national restrictions upon immigration. The central thesis of this work is that the doctrinaire liberal position has become dysfunctional for the pacific and egalitarian goals of proponents of both "negative" and "positive" peace. This is due to the contextual effects upon industrial societies of trade and financial market deregulation and the concomitant assault upon public sector welfare state roles. A concluding section elaborates the corollary thesis that "peace" prospects in the 21st century are most likely to be enhanced by recognizing the qualitative difference between aggressive and defensive nationalism on the one hand, and promoting new economic security policy priorities for the nation-state as the most inclusive viable source of mass identity and protection on the other.

Key Words: Marxism, internationalism, nation-state, migration, immigration, economic security, peace

Introduction

Peace and Internationalism

Two apparently consonant trends appeared within the "peace advocacy research" and associated non-governmental organization (NGO) sectors during the last quarter of the twentieth century. Influenced by liberal internationalist and Marxian intellectual heritages, both tendencies continue to characterize and weaken domestic social harmony as we begin the new millennium.

The first pertains to the nation-state and its concomitant, nationalism. Indeed, a century earlier, when the nation-state was emerging as a dominant force in the era of the Franco-Prussian War, liberal internationalists began to define it as the principal threat to "world peace." Soon they, and particularly Leninists, gave salience to imperial rivalries in this context. Nationalism was portrayed as inherently chauvinistic and aggressive. Yet despite such essentialism, an apparently anomalous exception was invoked subsequently for

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what by the mid-20th century were self-depicted as "national liberation" movements.

The latter exception, or "Third Worldism," is directly linked to the second trend. Influenced by Johan Galtung and other neo-Marxian structuralists, radicalized "peace researchers" of the 60s generation opted to complement the traditional focus upon "negative" peace (i.e., preventing the outbreak and restricting the brutality or destructiveness of war) with a new emphasis upon "positive" peace (i.e., eradicating what they called "structural" violence, including poverty). A ubiquitous assumption was that the latter constituted the "root" cause of war.

In the writings of Gernot Kohler (1982), and in the form of a more elaborate paradigm advanced by Johan Galtung (1990), Third World peoples have been generally portrayed as the primary "victims" of "structural" violence. Hence, when members of such populations migrate to, or enter and reside illegally in, OECD "oppressor" nations, they are accorded special status and "group preferences" by internationalists. Hostile to even defensive nationalism in the North, liberal internationalists along with their more radical brethren also strongly favor permissive immigration policies.[1]

A Contrarian View

This radical internationalist perspective is not only a reflection of egalitarian values and normative commitments, it is tantamount to an element of humanist religious faith. My thesis is that such a doctrinaire posture, in the current interstate context – i.e., the post-Cold War era of corporate dominated neo-liberal globalism – is politically counterproductive. In terms of ameliorating "structural" and overt violence and advancing a problematic egalitarian imperative, the "left's" permissive stance on immigration will become largely if not wholly dysfunctional as we enter the 21st century. Put bluntly, it will indirectly contribute to heightened economic insecurity, ethnic hostilities and violence.

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[1]. Recent examples of such principled liberal internationalist opposition to immigration restriction include: Sassen (1989); McLaughlin (1994); Richmond (1994); Harris (1995); Reimers (1995); Simon (1995); Singer (1996); Human Rights Watch (1997); Salins (1997).

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Elaboration

My argument will be developed as follows. First, immigration will be placed in its global migratory context, which in turn will be related to the so-called (Chomsky, 1994) "New World Order." Second, alternative scenarios for the first decades of the new millennium will be delineated.

Following this I shall briefly examine a number of problematic assumptions pertinent to the nation-state, nationalism, egalitarianism, and labor movements. These appear to be held so tenaciously as to constitute a veritable dogma by those on the "left." A dogma that is reinforcing the latter's alienation from broad sectors of the citizenry.

Finally, I shall elaborate an alternative labor-oriented strategy premised upon a less Manichean and more flexible interpretation of nationalism. This, it will be argued, offers a relatively cost-effective means for moderately reducing structural violence in both the North and South by reversing the global decline of labor movements as important political actors. In so doing, it will be necessary to adopt a pragmatic rather than a doctrinaire approach to both egalitarianism and internationalism.

The Migratory Setting

While various "push" and "pull" factors influence migration, physical safety and economic gain are especially salient singly or in combination. Given North/South disparities in both living standards and overt violence, it is easy to understand why migration tends to be into such OECD nations as the U.S., Canada, Sweden, Australia and members of the European Union.[2]

Although the pace of rising mass living standards, and in lesser measure safety began to deteriorate in the North during the mid- or late 1970s, the North/South "gap" in respect of both of these criteria – notwithstanding some exceptions – actually began to widen. This happened despite, or perhaps because of, growing "aid" programs, rising investment flows to the South and the gradual movement toward "free trade."

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[2]. There is a vastly larger lateral flow in the South of economic migrants to several high-income Middle Eastern countries, as well as war refugees in Africa and other regions. On these patterns and their intensification in the post-colonial era, see: Adelman and Sorenson (1994:ix-xix); Ogata (1997).

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Since then the situation has deteriorated modestly in the North and sharply in much of the South.[3] Consequently, there has been a dramatic rise during the past decade and a half in the number of refugees from war, civil violence and ineffective government responses to both the conditions which facilitated and were consequences of natural disasters. Parallel to this has been a sharp decline in the relatively small number of Third World nationalist or "socialist" regimes that had channeled *substantial* resources with some measurable effect (Wolpin, 1983) toward public sector employment and socio-economic development projects. Nor has the recent diffusion of formal electoralism been associated with the rule of law, institutionalized elite accountability, or mass socio-economic betterment – "democratic" rhetoric notwithstanding.

Given such "push"-factor intensification, moderate weakening of their "pull" counterparts has failed to diminish South/North migratory pressure.[4] Thus despite rising unemployment in the OECD states, welfare-state erosion, declines in real wages, etc., immigrants – legal and increasingly undocumented – endeavor to enter and remain in OECD countries. The result is rising tensions (Newland, 1994:120) and the demand for immigration control as a major working-class-supported issue during the past decade.

Several related factors, in addition to accelerated immigration and "free trade" "progress" (capital mobility/product or service outsourcing), have led to an attenuation of living standards for ordinary citizens (Greider, 1997) in the North. Not only have the immigration and the trend toward international free trade massively increased the effective labor supply for international capital, but so has the opening of desperate labor markets in Eastern Europe and several other former Communist-ruled states. The use or threat of outsourcing in conjunction with heightened job competition from alien labor have simultaneously exerted not only a downward pressure (Edwards, Carona and Tödtling, 1986:184-189, 199, 222-23, 245-60, 276; Dicken, 1992:425-34, 448-49; DuBoff and Herman, 1997:30;

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[3]. The following delineate these trends: Chomsky (1994); Panitch and Wood (1995); Teeple (1995); Wood (1995); Chasin (1996); Edwards (1997); Wolpin (1997); Briggs (1998).

[4]. Similar if less pronounced deterioration since the late 1980s in much of Eastern Europe and the former Soviet Union (Kagarlitsky, 1995) has added to such pressures, as mass living standards and economic security were adversely affected by neo-liberal policies.

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National Research Council, 1997:1; NAFTA, 1997:7; "The Misinformation," 1997:4-5; Wilson, 1997:4-5; Briggs, 1998) upon real wages and working conditions in the OECD area, but they also have powerfully reinforced corporate-associated efforts to weaken trade unions – a factor contributing to the deterioration in the economic security of ordinary citizens.

The growing dominance of neoliberal economic policies is also partly a function of the erosion of Labor's influence in the OECD and particularly in the United States. Those policies, in turn (Teeple, 1995), reinforce that decline. Currently trade unions in these countries have been reduced to minor-actor status. Not only have they lost members and influence, but even traditional Labor and "Socialist" parties have moved to the right in varying degree, simultaneously severing or attenuating heretofore close ties to labor. Disoriented rank and file members – reacting to acute economic insecurity, exacerbated by labor market competition from both migrants and an increased number of women forced by declining real wages into the unskilled sector – have by default begun to support the "right" (Cote, 1997) and exhibit hostility, veiled or even overt, to those who "threaten their culture" and the ethnic identity of their nation.

Alternative Prospects

Predictions of the future are frequently vitiated by normatively biased assumptions, a misreading of the past, or the inability to anticipate the fortuitous. With such caveats in mind, we may briefly address two alternative future scenarios highlighting conflict and harmony respectively.

A less sanguine alternative envisages major conflicts between rival cultural groupings or "civilizations." While six such groupings are elaborated by Huntington (1993:22-49), the principal adversaries identified in his study are Euro-America, Islam and China. Secondary contenders are the Slavs and Latin America with sub-Saharan Africa as a distant sixth. While Latin Americans and in lesser measure Asians are the most obvious targets of those who oppose immigration in the U.S., Afro-Americans tend to be as hostile, or even more hostile, to these immigrants than U.S. residents of European ancestry. Anti-immigrant hostility in Western Europe is inspired primarily by North Africans, Turks, and in lesser measure,

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East Asian Muslims, although in the U.K., Caribbeans and African immigrants are also a source of growing mass resentment. In all cases, labor market deterioration exacerbates the reaction to such ethnic and cultural disparities.

The domestic conflict variant projected by Kaplan (1994) places emphasis on ethnic and in lesser measure religious tensions. While the Hobbesian focus of Kaplan's scenario is upon the South and more modestly the East, he and others (Bernstein, 1995; Gross, 1997; Fallon, 1998) see particularist group conflict as also intensifying in Western Europe and North America. Emigration "push" factors are consequential upon ineffective governance and economic deterioration for mass sectors in much of the Third World. Kaplan does not, however, relate the latter to the increasingly prevalent neo-liberal economic policies.

Finally, a benign scenario of some prominence was popularized by Fukuyama (1989). Premised upon the anticipated simultaneous diffusion of electoral "democracy" and capitalism, Fukuyama predicted a general advance of socio-economic and human rights, signaling the strengthening of middle class sectors as well as the demise of serious ideological discord and presumably intense particularist conflicts, i.e., the "end of history."

While it is obvious that global capitalism and, more problematically, electoralism are currently hegemonic, the diminution of disorder, civil conflicts and poverty as migratory "push" factors has not only failed to occur during the post-Cold War decade, but if anything these phenomena have intensified and/or become more ubiquitous. Further, there has been a general rise in hostility to refugees not only in the North but even in Third World host countries (Sassen, 1989) such as the Democratic Republic of the Congo, Tanzania, Lebanon, and China since its incorporation of Hong Kong.[5] Migrants, too, have engaged in violence against natives in the UK, France, Italy and the United States.

Problematic Assumptions

If existing trends are more consonant with Huntington's projection of inter-cultural and especially endogenous subcultural conflicts,

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5. On this general situation in Africa itself, see: Adelman and Sorenson (1994: x-xi).

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exacerbated by deteriorating mass economic security or living standards, it remains for us to address the frequently alleged obsolescence of the nation-state as a protective socio-economic mechanism. Since neither regional nor global institutions – both dominated by corporate–subservient major powers – have effectively performed this protective role, it should be borne in mind that, as Robert Wade (1996) argues, "(r)eports of the death of the national economy are greatly exaggerated." In other words, liberal internationalist and corporate globalist illusory rhetoric has yet to become a self-fulfilling prophesy.[6]

The Persistence of National Identity

While we may concede, as Benedict Anderson argues, that the nation-state is in some measure an "imagined community," it nevertheless functions in the contemporary era as a primary and resilient frame of reference or identity (Miller, 1995) for most ordinary citizens in the OECD area. Popular resistance to the Euro is a case in point. The fact that such identification among the "liberal" intelligentsia and elite sectors is attenuated or virtually non-existent, as Christopher Lasch (1995) contends, should not obscure this reality.[7]

Put differently, neither "global citizenship" nor "multiculturalist" ideology are behaviorally relevant for mass sectors in the North, or the South for that matter.[8] On both economic, and in lesser measure, cultural grounds, most citizens in the North expect their nation-state in the primary instance to protect their economic security and national culture (language, customs, values, etc.). For them the so-called "Global Village" is as mythological as the "international community" is at the elite level, with the European Union and transnational capital as only partial exceptions. Indeed, the integrative impetus toward European Union is largely driven by

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6. Indeed there is some evidence (Bergsten and Henning, 1996) that intense interstate rivalry has adversely affected the collaborative potential of the Group of 7 itself.

7. Notwithstanding some diminution due to the presence of unassimilated minorities – including migrants – and the diffusion of multiculturalist ideology. On the latter in the U.S. setting, see Gitlin (1993), Bernstein (1995), Brimelow (1995), Fallon (1998).

8. In the South, subnational particularism rivals national identification in most of Africa, much of the Middle East and South Asia as well as in some parts of Latin American countries.

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transnational capital as opposed to citizen demand.

Is the Nation-State Archaic?

Ubiquitous assertions that "interdependence" within the context of a "global economy" has progressed to the point of emasculating de facto state sovereignty ignore the vast residual government authority available to political elites in OECD countries. They confuse elite delegation of or unwillingness to exercise such national authority (Tabb, 1997) with its massive erosion or imagined obsolescence. Western state power and domestic regulatory intrusiveness are quite impressive. Similarly, proponents of "globalism" ignore the continuing relative global significance (Wade, 1996) of major national economies. Their significance continues despite the growing relative importance of trade and capital mobility.

Not only in the area of immigration, but also with respect to crucial financial speculation or capital flight as well as unfair trade, states may – if elites are disposed – act forthrightly to protect their citizens' interests and thus diminish rising political alienation. This may, of course, require abrogation or modification of treaties in those instances where waivers can't be obtained.

The political deference of elites to international capital is the source of the latter's policy dominance over major industrial societies, not the lack of state resources or effective sovereign authority! While this may be less true for small or very heavily trade-dependent states, even they have a range of neo-mercantilist options ranging from multi-state coalitions like the earlier European Community to altering domestic economic incentive structures.

Nationalism as "Racist Xenophobia"

Liberal internationalists are sharply divided on the character of nationalism in the South in contradistinction to its assumed "negative" significance in the North. The dominant tendency associated with corporate neo-liberal globalism regards nationalism as an ominous hindrance to Third World market penetration and Westernization. The latter are regarded as essential to the "economic growth" mantra, which, in turn, tends to be equated with "development." Yet high rates of growth and modernization (Sassen, 1989:814) have catalyzed emigration as much as has stagnation. Except for most sub-Saharan Africa, the average growth rates in the Third World have been

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comparable to those in the North – about 2-3%, though not in per capita terms, due to the high rate of population increase in the Third World.

Like the nation-state itself, any moves toward neo-mercantilist policies in the North are regarded by globalists as quasi-archaic constraints – likely to elicit retaliation – upon "interdependent" non-zero sum economic growth in the North. Generally disregarded or minimized are the adverse effects upon real wages and mass sector economic security of economic globalization, as well as the disproportionate political advantage enjoyed by oligopolistic Transnational Corporations (TNCs). Furthermore, despite the new "free-trade" regime symbolized by the WTO, EU and NAFTA, major corporate actors remain heavily subsidized (Stansel and Moore, 1997) and in various ways "protected" (Chomsky 1994) by the states and the Inter-Governmental Organizations (IMF, World Bank, etc) which they dominate in the North. The Mexican (1994), Korean (1997) and Indonesian (1998) "bailouts" exemplify this pattern. Even in the South, the public sector subsidizes TNC "investors" with loans and infrastructure.

Analogous double standards characterize these liberal NGO cultural-internationalists. Not only do they downplay or blithely ignore the dislocational and downward leveling impact of TNC-sponsored market deregulation, but they ascribe legitimacy only to the utopian goal of preserving national or, more commonly, sub-national particularist cultures in the South against the onslaught of Western "Eurocentric" science, technology and commercialism.

Yet even here there is an operational dichotomy between ideology and practice. Both radical feminists and other self-styled "multiculturalists" actively promote "reform" of traditional societies where customary values and practices are at variance with their own Eurocentric or Western values in such areas as gender relations, traditional customs and "human rights."

On the other hand, not only do these "liberals" fail to differentiate defensive from aggressive nationalism in the North, but all manifestations of the former are indiscriminately labeled as "racism." Thus any desire to defend cultural integrity or labor markets via immigration control is doctrinairely condemned by culturally internationalist "Global Village" elites who dominate the media, foundations and higher education. Their promiscuous resort to racist

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or xenophobic labels further alienates them from the majority of ordinary citizens who in general are less indecent than assumed.

Egalitarianism as Group Bias

Because of their militant apparent commitment to ethnic egalitarianism, liberal internationalists are not only blind to their own elitist life-style and chauvinism vis a vis ordinary lower-middle and working class citizens (Lasch, 1995), but they ignore the fact that aside from legal due process, social inequality is and has always been the consensual *norm* for virtually all (Sowell, 1996a) contemporary societies, including many tribal ones.

The ubiquitous Manichean tendency to assume that Third World migrants have been "victimized" by OECD countries also generates a belief that they should be accorded special consideration extending even to law enforcement (e.g., tolerance or amnesty of illegal aliens) and consequential judicial administration. Their ascribed superior moral and juridical status engenders a denial of equal protection of the law to indigenous citizens. In a context where the overwhelming mass of such migrants are unskilled, this liberal internationalist perspective intensifies resentment and alienation among lower middle and working class majorities. When, as is often the case, it is reinforced by the use of tax funds to subsidize non-citizens, including illegals (Fallon, 1998), reactive tensions are magnified by ascriptive "group preferences" in education, employment, etc.

Thus such "multiculturalists" not only belie their own egalitarian pretensions in practice, but they also subvert respect for the rule of law and systemic legitimacy. Intensified ethnic or racial division also undermines the cohesion and working class constituency appeal of labor parties, which historically have played a major role in narrowing differences of wealth and income.[9]

Furthermore, the post-modern assumption that all cultures are inherently equal in all respects is as absurd (Sowell, 1996) as the corollary myth about individuals or classes. Attempts by Communists and other ideological egalitarians during the 20th century to level in both directions have at best yielded very modest success limited to

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[9]. There is considerable evidence that class inequality has actually increased during recent decades in most OECD countries. See the sources referred to in note 3, and "Measuring Privilege" (1997: 3).

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certain areas and degrees. Elites of various sorts invariably reassert themselves, reflecting a diversity of talents and merit despite unequal class opportunity structures. The same can be said of distinct ethnocultural groups historically. This isn't to say that *some* cost-effective diminution of extreme socio-economic defaults wouldn't be helpful.[10] It says only that militant egalitarians have advocated "open borders" and group preference policies that in the coming decade will indirectly aggravate such disparities by promoting hostilities among ordinary citizens as well as between them and non-citizen "victims."

International "Solidarity" Can Effectively Challenge TNC Dominance, Global Poverty and Cultural Traditionalism

Although the "pull factor" of relatively high income industrialization reflecting historical Western values accounts in part for the vast numbers of migrants heading North – a symbolic vote for Euro-American culture – the "push" element is of equal or greater importance. If indigenous Third World movements seeking economic sovereignty, higher mass living standards and Western modernization were significantly stronger, the per capita GDP and human development gaps would be narrowing instead of widening.

Thus we confront the question of how generally declining (Edwards, Carona and Tödtling, 1986; Teeple, 1995) and frequently weak labor "movements" in the North expect to alter the situation in the South when: 1) they are on the defensive vis a vis the corporate offensive and dominance in most of their own societies; 2) counterpart labor and peasant organizations in the South are far weaker, often to the point of marginality; and 3) liberal internationalist political elites in the North are advocating immigration permissiveness and multiculturalist group preferences that are further eroding the cohesion of the working populations.[11]

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[10]. On the intra-working and lower middle class divisive effects of such "reverse" discrimination, see Sowell (1996:236-82) and Fallon (1998:35-49).

[11]. "Solidarity" as the solution is reiterated (Brecher, 1993; Brecher et al., 1995; Cavanagh et al., 1993; Greider, 1997) in both radical and labor-oriented liberal internationalist literature. While usually advocating North/South ties with labor/peasant activists, occasionally such advocacy centers upon consumer boycotts (Brecher et al., 1995). The effectiveness of both tactics has in most instances been marginal.

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Put differently, only strong labor movements and closely linked defensively nationalist populist or labor parties can effectively challenge the free trade and neo-liberal deregulatory pro-corporate bias of their own states' existing political elites.[12] Second, when their domestic political influence becomes a major force to be reckoned with, they will be in a position to *effectively assist* counterpart labor and peasant movements in the South by indirectly altering labor market and investment incentives in various Eastern as well as Third World societies.

It should be equally clear that the declines in economic security, labor movements, protectionism and immigration controls in the North have not measurably offset the erosion of mass sector living standards and human development in the South. Exceptions notwithstanding, that has generally occurred to a limited degree only where indigenous elites and movements have independently pursued such goals.[13] Indeed, easy emigration may reduce (Hardin, 1993) such incentives.

Altering labor policy incentives for political elites in the South is likely to be considerably more cost-effective than diverting energy and tokenistic resources from declining labor sectors in the North for largely symbolic acts of "solidarity." This may fulfill some ideological or spiritual needs for a few internationalists, but it is unlikely to promote substantial global structural change or improvement in mass living standards anywhere. Nor are existing international labor regimes of more than marginal significance. This is again due to the relative weakness and decline of national labor unions in the North.

An Alternative Strategy

A new approach to reversing the decline of labor by enlisting broad lower middle class support should take advantage of both populist and strong residual nationalist values within OECD societies.

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[12]. Constituency appeal should encompass national corporations that rely largely upon domestic input and, somewhat more importantly, market domestically. Protection from low-wage TNC imports in many cases would offset the reduced availability of immigrant and illegal labor. Transition wage subsidies or tax credits could be provided to affected service sector employers by states which currently (de Mause, 1998:12) provide approximately $50 billion in corporate subsidies, largely to steal jobs from each other.

[13]. These regimes have tended to be either "socialist" or neo-mercantilist (NICs)—both pursuing defensively nationalist policies (Wolpin, 1983; Kagarlitsky 1995).

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By infusing democratic defensive nationalist content in opposition to international capital which, without patriotic loyalties, seeks to play off workers and governments in one country against those in others in a downward leveling process, this "target" is unlikely to facilitate aggressively chauvinist movements. The national "enemy" then would be TNCs and their deferential unpatriotic political elites – North, East and South!

This distinction, separating what I am suggesting from aggressive variants of traditional nationalism, applies to immigration reform as well as to fair trade and controls on capital mobility. As for the former, short-term migrant workers would be welcome, provided demonstrated labor shortages existed. If higher minimum wages and tougher welfare reforms with stronger work incentives could generate sufficient indigenous manpower for unskilled sectors, migrants would not be admitted, and illegals deported.[14]

Rational cultural and economic (Brimelow, 1995) criteria would also govern exceptions. But the administration of such exemptions should be rigorous given numerous past abuses with respect to both the investor and this "asylum" exemptions. For the same reason, "refugee" and family reunification (except for pre-existing spouses and minor children) should be eliminated save for a very small number of humanitarian exceptions. This would sharply reduce the net burden (Fallon, 1998:25-31) on working-class taxpayers.

Ameliorating Political Comparative Advantage

Since permissive immigration per se is only partly responsible - often indirectly – for adverse effects (Briggs, 1998; Fallon, 1998:25-31) upon real wages, employment security, welfare state burdens and trade union membership, adopting other defensive economic policies is also essential. Thus an effective strategy to strengthen labor and populist forces must address "free trade" not only in the labor sector but also with respect to goods, services and financial flows. Otherwise the ostensible benefits of immigration reforms will be offset by increased outsourcing and capital relocation.

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[14]. In Australia, for example, an estimated 30% of urban Asian migrants are under- or unemployed. As in other OECD countries, survey research indicates that upwards of two-thirds of the OECD populations favor more restrictive immigration policies (Stove, 1997).

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As elaborated elsewhere (Wolpin, 1997), a flexible sliding "social tariff" has been proposed for imports from low-wage producers. Other attributes such as unsafe working conditions, minimal taxation, and trade union repression would also be weighted in determining particular social tariff levels for specific countries. This would generate incentives for Third World employers and political elites to improve the status of employees in their own societies in order to be awarded social tariff reductions. Environmental and population-control progress criteria might also be incorporated to more fully "level the playing field."

A defensive social tariff would thus diminish outsourcing and runaway plant incentives which are running counter to full time employment, working and safety conditions, and employee compensation growth in most OECD nations. Organized labor will not significantly broaden its constituency until this trend is reversed. Indeed, imposition of a "National Employer Community Responsibility Tax" for non-cyclical plant layoffs could reinforce social stability via employment-maximizing incentives. Similarly a Canadian style health insurance system could remove this burden from American employers, as would strengthened national pension schemes. This would diminish incentives to employ part-time and temporary workers who can't support a family.

Beyond these reforms, measures would have to be taken to end the easy flight of "hot money" and its concomitant, currency speculation. The U.S. is particularly vulnerable due to its long-term current account deficits, enormous debt overhang, and reliance upon foreign capital to finance a considerable portion of the federal deficit. Multiple managed exchange rates for capital outflows would have to be rigorously enforced to avoid ruinously high interest rates and/or foreign exchange shortages.

Finally, a national program to strengthen both quantitative and qualitative aspects of labor markets could reduce societal waste occasioned by underemployment and deficient performance. This might involve major infrastructure renovation, radical improvement of educational quality controls, and promotion of employee owned enterprises in both service and industrial sectors. Tax, welfare and other policy changes to strengthen the family and communities might also enhance labor-force quality and further reduce unemployment in conjunction with a reversal of the decline in real wages over the past

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two decades.[15]

Transition Costs

To assess the costs of such mutually reinforcing policy initiatives, it is necessary to take account of three factors. These include: 1) current cost-distributive effects of existing "free trade" and permissive immigration policies; 2) short versus long term costs; and 3) offsetting savings.

In the initial section of this critique considerable attention was given to rising lower middle and working class economic insecurity and cultural tensions associated with the prevailing neo-liberal "globalist" paradigm. On the other hand, the TNCs and between 15%-30% of the population in the OECD countries, along with 5%-15% in most of the South and East, are prospering in varying degree,[16] although the situation is today difficult to assess due to the recent East Asian, and to some extent global, financial chaos.

Not only would some – particularly the TNC-linked top stratum – lose in the short run, but so would prospective legal, and the current five to ten million illegal, immigrants, along with many of their families who receive foreign remittances. Then, too, consumers might have to pay higher prices for some goods – particularly from high social tariff countries such as China and Mexico. With regard to these countries the U.S. would undoubtedly experience some initial adverse employment effects in export sectors though much of this would be recouped by the expansion of more labor-intensive indigenous economic activities to replace some imports.[17] Loss of exports to these low-wage countries would be more than offset by a decline in imports. As their wages subsequently increased, so would imports.

Nevertheless, they would eventually benefit not only from higher

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[15] This qualitative focus responds to one of the attributes of migrant labor, namely that it is frequently, though not invariably, superior to counterpart indigenous workers. Stove (1997: 22) emphasizes this with respect to the Australian case.

[16] In perhaps a few "NICs" and several major energy producers, the pattern may approximate that of the two dozen or so states of the "North."

[17] One consequence of protectionist retaliation for a "social tariff" would be a new lease on life for artisans and other national businesses in service as well as manufacturing sectors. This of course would cost some export-sector jobs in the North until wage levels, working conditions and demand increased markedly in pertinent Third World countries.

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wages and working-condition incentives, but also by incentives stimulating domestic production for local markets and a consequent improvement in their terms of trade. Similarly, the decline of rural employment and family stability could be lessened. More fundamentally, likely external debt repudiation as well as controls on recycling of capital, and an end to some of the massive "brain drain," could strengthen the resource-base in much of the Third World. Economic sovereignty and even cultural defense might well be major beneficiaries.

The previously-mentioned likely external debt repudiation would be more of an apparent than real cost to citizens of the North. Recent decades of unsupportable growth and current patterns of public refinancing together indicate that the debt never will be repaid. Most of what isn't refinanced has and is being "written down" or "off" at public taxpayer expense (Grieder, 1997). Indeed, current U. S. Federal subsidies to the financial and other corporate sectors range from $75 to $167 billion per annum (deMause, 1998:12).

On the other hand, many current public sector costs of maintaining or imposing the free trade regime (Robinson, 1996) on states in the South and East would be sharply reduced. This pertains to (Cavanagh et al., 1993; Chomsky, 1994; Petras and Morley, 1995; Robinson, 1996) the foreign "aid" sector and particularly military expenditures. Other activities such as various forms of propaganda and covert operations could also be sharply scaled back, as would burgeoning anti-terrorism expenditures. These outlays could be redirected to the previously-mentioned infrastructural investments or tax reductions to offset somewhat higher prices. Other tax-relevant savings would accrue in such areas as law enforcement, crime victimization, corrections, education and welfare.

Conclusion

While greater restrictions on immigration would modestly improve labor markets and organizing prospects as well as reduce state fiscal burdens in the North, strengthened coalitions between labor and patriotic national movements would have to press for a reinforcing alternative national economic security model. This would be necessary to counter the "free market" globalist pillars of the current decline. Otherwise, as domestic wages and economic security increased, outsourcing and capital flight would accelerate. In

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conjunction with financial and selective trade controls, these structural sources of growing class inequality and political alienation in the OECD area, as well as between the North and most of the South, would be lessened. Quite possibly, we might be able to halt what has been called "a race to the bottom."

The long term consequences by the second decade of the 21st century, would be a world with less "structural" and overt ethnic violence over a "shrinking pie" for lower-middle and working-class citizens. Natural and cultural sources (Sowell, 1996a) of inequality – political and socio-economic – would persist. Similarly, conflict management within and among states will remain a long-term priority. It is clear that only a few states today are characterized by common cultures, the rule of law and effective governance This means that visions of a "global village' or an end to the nation-state are utopian illusions now as in the past.

Clearly, the exercise of national economic sovereignty can alter the terms of the much ballyhooed "interdependence." In the present circumstances the ever-increasing movement of labor, capital, goods and services across borders are working together to intensify endogenous centrifugal forces within states while simultaneously constraining their external room for maneuver.

The current prospect is bankruptcy and even fragmentation of existing states in much of the South, East and parts of the North. Yet if the emergence of defensive national movements can enable the nations to become more responsive to the economic and cultural needs of the middle and lower-sector citizens, who constitute a majority, so also rising ethnic tensions can be ameliorated. As the Swedish maxim posits, "the best should not be an enemy of the better."

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Comments on Miles Wolpin's "Permissive Immigration ..."

Dwight D. Murphey[1]
Wichita State University, Kansas

The author discusses Wolpin's arguments regarding the need to control immigration in order to protect the workers in the "Northern" or more advanced nations, and observes that this will be all the more important in the long term as technological advances reduce the demand for labor and increasingly demand new solutions to the problem of distributing wealth.

Key Words: Immigration, industrial technology, unemployment, labor utilization, shared market economy

The article by Miles Wolpin that precedes this Comment continues a growing literature that explores the plight of workers in the changing world economy. Its content should stimulate thoughtful debate on the question of immigration, but some further observations are necessary in respect of the status of labor in tomorrow's world. I would like to add to that discussion the following observations in the context of Wolpin's article:

The Fragmentation of Existing Ideologies

As the article illustrates, both the traditional American "Left" and "Right" are by now clearly divided within themselves over many of the most fundamental economic and social issues.

Within American conservatism, there are those who see Free Trade and open immigration as essential parts of their long-standing support for a market economy, a cosmopolitan world outlook, and opposition to government intervention. At the same time, there are conservatives who believe just as strongly that borders open to trade and immigration will, under the circumstances of the world today, destroy the very foundations of "classical liberal" individualism in the United States. To this latter view, open borders will bring a

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displacement of millions of American workers and a loss of cultural identity – perhaps even national existence if separatist movements arise – as the existing population is inundated by waves of people coming in from the Third World.

Wolpin's article makes clear an equally sharp division within the Left. For almost two centuries, the central feature of the Left has been a profound alienation against the predominant commercial ("bourgeois") culture within the United States and Europe. The intellectual culture has sought allies of all kinds in its struggle against that culture. In its support for "multiculturalism," much of the Left has in recent years found the ideal allies for that process of destruction, since the potential for immigration from the Third World is limitless. If that influx continues, European and American societies will become unrecognizable within just a few years. It can hardly be surprising, however, that many people on the Left don't welcome this, since it undercuts so fatally the interests of the very workers in the United States and Europe that the Left has so traditionally championed. Those workers are threatened with an imminent reduction to Third World living standards as they are thrown into competition with billions of people from other continents who receive a pittance for their work. Not coincidentally, a defense of the living standards of American and European workers presupposes a defense of the economies and societies in which those workers have lived. This leads to the cultural conservatism that we see in Wolpin's article. Significantly, it leads also to this branch of the Left's standing in opposition to the elite, which includes many intellectuals, that is now leading the way toward globalism. This means a major division within the intellectual culture, which, despite all sorts of bitterly contested variations of viewpoint within itself, has so long served as the dynamic force behind the world Left.

It is going to be interesting in the years to come to see whether the corresponding branches of Left and Right on each side of this divide, branches that have so long been bitter enemies but which now have so much in common, will coalesce into common outlooks and a shared political and ideological future. Right now, it seems hard to believe that Pat Buchanan and a labor Democrat can be political, intellectual associates, much less friends. Only time will tell; the members of each corresponding branch will first have to get to know each other a lot better than they do now. For Wolpin favorably to

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cite both Chomsky and Brimelow, suggests that they can.

The Need to Look Further "Along the Curve"

What is missing from Wolpin's discussion is, however, a factor which may well be of critical importance. A glance at his references at the end of the article reveals that he has not brought Jeremy Rifkin's *The End of Work* into his thinking; nor has he included the ideas contained in my article "The 'Warp-Speed' Transformation of the World Economy: A Discussion of Ten (of the Many) Recent Books" in the Fall 1996 issue of this *Journal*.

These omissions suggest, and the content of his article confirms, that Wolpin is looking only at the devastating impact on employment of foreign imports, outsourcing and immigration; i.e., of competition to workers in the developed economies from workers in the low-pay countries. Thus, he is looking entirely at an *intermediate* phenomenon, not at what promises to be the overriding source of worker displacement, which is *non-labor-intensive technology* through robotics, biotechnology and computers. He has yet to include in his analysis the fact that, before long, even the low-pay workers of the Third World will be undercut by processes that render them non-competitive.

This technological displacement is coming upon us rapidly, though its impact has been disguised by the recent boom. No doubt there is need to be actively concerned about what happens to people between now and the culmination of the technological revolution, but the social solutions adopted for the intermediate stage should be informed by what will be necessary in the soon-to-arrive "longer run." Millions of people will be out of work (or, what is most likely in the advanced economies, marginalized into nonremunerative work in a system of highly polarized wealth).

This is not to say that the protection of domestic workers and businesses from lowly-paid foreign labor, and the protection of national identity and of domestic workers and businesses from a massive influx of Third World immigrants, won't be vitally important as immediate policies within the United States and Europe. It simply points to the fact, highly important in itself, that a halt to immigration won't be sufficient to solve the ultimate problem of worker displacement. Nor will tariffs do more than soften or block the intermediate impact of foreign competition. Neither of these will be

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a solution for massive technological displacement that is just in its incipient stages.

No, what is needed is a vision that takes into account *both* the intermediate and the long terms. A vision of that sort *is* possible, and draws upon both socialist and classical liberal free market roots. Suggestions include the idea of a "shared market economy" in which everyone in the society owns shares in index mutual funds (i.e., funds that hold stock broadly across the entire economy) and draws an income from them. This is a form of "guaranteed annual wage," but with the aspect that the market economy continues vigorously, probably on a global basis, with its rapid innovation and its drive for low-cost production. The idea involves a mixture of redistributionism with free-market economics, but in a way that does not impede business firms in their quest for profits or in their on-going innovation. (As shares are purchased to distribute among the population, capital will have been pumped into the firms whose shares are being purchased. The firms will later pay dividends on those shares just as they do now.) This is an idea that requires much more elaboration, of course, than we can give in a short comment.

The "shared market economy" concept will necessarily involve restricting immigration, not only to preserve the already-existing culture and national identity, but also because the sharing of ownership of the firms in a nation's economy becomes virtually useless as a source of income-support for the nation's people if tens of millions of additional people are added to those who are sharing the ownership. The countries with advanced economies will need to be "self-regarding" in their own self-preservation. The welfare of the billions of people within the less developed nations will not be best served by "swamping out" Europe and America, but rather by the continued improvement of science and technology which will allow a sharing of incredible new means of production with those peoples.

In the coming world of technological displacement, an emphasis on work as the source of peoples' livelihood won't hold up. If that is so, we see how deeply we are going to have to rethink almost everything we have taken for granted, either as members of the Left or the Right – even to including a reconsideration of what will constitute a definition of "Left" and "Right" in the world of the future.

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The Real Cost of Immigration

Peter Brimelow
Author, *Alien Nation: Common Sense about America's Immigration Disaster* (Harper Collins)

The author comments on Joseph L. Daleiden's article entitled "Is Immigration the Answer to a Labor Shortage?", which appeared in the Summer 1998 issue of this journal, and points out that the National Research Council (NRC) 1997 Report, cited by Daleiden, has been widely misreported in respect of the cost of immigration. Prevailing media reports tend to conceal the fact that the NRC report clearly revealed the high economic cost to native-born U.S. residents of the current influx of immigrants into the U.S., and the essentially non-existent aggregate benefit.

Key Words: Immigration, the Jordan Commission, National Research Council, Senator Spencer Abrahams, 1995 Smith-Simpson Immigration Reforms, John Huang

Joseph L. Daleiden is of course right on point when he argues that there is no long-run case for alleviating labor shortages by increasing immigration (*JSPES* Summer 1998). It has always struck me as paradoxical that the economist most identified with uncritical immigration enthusiasm, the late Julian L. Simon of the University of Maryland, was also famous for arguing that there would never be shortages of raw materials, essentially because the economy effectively rations through pricing. For some reason, he never applied this insight to labor.

However, I think Daleiden was somewhat unfair to the National Research Council of the National Academy of Science, which he accuses of being "disingenuous" in its May 1997 report, "The New Americans." In fact, the NRC report, a review of current thinking among academic economists that had been commissioned by the U.S. Commission on Immigration Reform (the "Jordan Commission"), was devastating to the claims of the immigration enthusiasts. That this devastation was not reported in the press – the *New York Times*' May 18 headline read "ACADEMY'S REPORT SAYS IMMIGRATION BENEFITS THE U.S.– NO HUGE COSTS ARE CITED," the exact opposite of the truth – was a triumph of the spin-doctor's art. It traces right back to

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the National Academy's permanent staff, who put out a shockingly misleading press release.

The key points of the NRC report:

* The current immigration has produced essentially no net economic gain for native-born Americans. The NRC reports estimates ranging from $1-$10 billion – utterly trivial in the context of a $7.5 trillion economy, perhaps one-tenth of one percent. In other words: America is being transformed for – nothing.

(Note that $1-$10 billion figure was *not* the increase in output – Gross Domestic Product – attributable to immigration. That may be fractionally higher – but the bulk of it goes to the immigrants themselves in wages. What the NRC study estimated was more interesting: what Americans get out of immigration. This is what Daleiden was getting at with per-capita GDP figures, but it's more precise. And damning.)

* The current immigration is now inflicting significant net fiscal costs on native-born Americans. Path-breaking analyses specially prepared for the NRC show that for New Jersey, one of the six top immigrant-impacted states, the combination of federal, state and local taxes results in an additional net tax burden per native-born American household of $229 per year. For California, the federal, state and local tax cost of immigration to native-born households is a staggering $1,174 per year.

(Suggesting a new question to be put to California's voters in their splendid initiative process – "ARE YOU HAPPY WITH CURRENT IMMIGRATION INTO THE STATE OR WOULD YOU RATHER HAVE $1,174 A YEAR?") Averaged across the *entire* U.S., immigration is costing in taxes a startling $166-$226 per native-born American household, or $15-20 billion a year. (Note that this tax cost to natives far exceeds all estimates of aggregate macro-economic gain.)

* The current immigration shows deteriorating skill levels, on average, relative to the native-born, a result of the flawed selection process begun with the 1965 Immigration Act which reignited mass immigration after a 40-year lull.

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* The current immigration varies enormously in its effects according to national origin (the report says that European and Canadian immigrants are actually a fiscal plus in New Jersey) and education (the report says flatly that "if the only policy goal were the maximization of the positive fiscal impact of immigrants, the way to accomplish it would be to admit only those with the highest education.")

The point: the 1965 Act effectively discriminates against these useful groups.

* The current immigration is responsible for an overall wage loss of perhaps 1.2% for native-born workers in the 1980s. This impact was concentrated on high school dropouts, being responsible for nearly half of their 10% wage decline relative to high school graduates.

The NRC report was mostly deadpan and prudently prolix. Immigration enthusiasts got a number of verbal, as opposed to substantive, salutes. Thus the report went out of its way to say that blacks are not much affected by immigration. Closer reading, however, revealed that this is supposedly only because most blacks do not live in the immigrant-impacted states – and was contradicted by the report's own findings on the nation-wide relative wage decline of high school dropouts, disproportionately black.

And in a peculiar exercise in economic science fiction, the NRC reports imagined a scenario where immigrants might be useful fiscally: if, in the year 2015, Washington suddenly and sharply raises taxes to avoid cutting Medicare, Social Security and other entitlements. In this situation, immigrants might then pay higher taxes, eventually become a fiscal positive, and would lower the average tax burden by definition. (Assuming, naturally, that the economy did not collapse under this government grab). But even under this scenario, it is notable that high-school dropouts are never a fiscal positive. Yet up to two-fifths of the post-1965 influx are in this category.

This exercise in economic science fiction has provided immigration enthusiasts with the one factoid that they have used to obscure its overall findings. Thus Senator Spencer Abraham (R.-Michigan) in a November 11 article on the *Wall Street Journal*'s

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blindly pro-immigration editorial page, claimed that the NRC report was "highly favorable toward immigration." Abraham alleged the NRC found a net fiscal benefit from immigrants, or more precisely from their descendants, over the long run (300 years!), amounting to some $200,000. Abrahams simply suppressed the fact that this would be true only if taxes are raised substantially around 2015. If not, immigration remains a fiscal drain.

Incredibly, this was the first mention of the NRC findings ever to appear in the *Wall Street Journal* – a resounding silence of just over 25 weeks. The mention, of course, was a lie. And the *Wall Street Journal* apparently does not intend to enlighten its trusting readers any time soon. When two NRC authors, Harvard economists George Borjas and Richard Freeman, attempted to correct this distortion of their findings, their article was refused. It appeared in the *New York Times* (December 10, 1997).

What has happened, quite simply, is that the economic case for current immigration policy has totally collapsed. Defenders of the current policy obviously feel they cannot acknowledge this. Hence their resort to these desperate tricks – and, inevitably, to personal abuse.

Why do immigration enthusiasts feel obliged to make such a rigid defense of current policy? After all, easy and obvious reforms could upgrade immigrant skill levels, English language proficiency and cultural compatibility while continuing an inflow quite large enough to satisfy the most hysterical Statue of Liberty fetishist.

This option is not considered for a reason that goes to the heart of this dishonest debate. Many immigration enthusiasts are selfishly concerned only with their own special deals, now hidden in the current policy shambles.They know that these could never be defended if immigration legislation were opened up for reform. Therefore they are determined to stop the legislation from being opened for reform - using whatever arguments are to hand.

The most obvious special deal: the extraordinarily expansive definition of family reunification, which has allowed a handful of Third World countries to shoulder aside everyone else and monopolize the bulk of legal immigration allotments. It is a common observation among immigration policy specialists that one group thus benefitting is Senator Abraham's own Arab community in Michigan. Another is the hijacking of the U.S. "refugee" policy by the Soviet

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Jewish lobby.

Immigration policy exemplifies a classic political science conundrum. Its costs are spread across the many; its benefits concentrated among the few. This is also a classic formula for successful political fund-raising – and campaign contributions are the hidden dimension of modern immigration policy, notably Clinton fund-raiser John Huang's now-exposed role in purchasing White House opposition to the 1995 Smith-Simpson reforms.

From an intellectual point of view, the debate on the economics of immigration has an eerie resemblance to the debate on I.Q. and race, as revealed by Mark Snyderman and Stanley Rothman in their *The IQ Controversy* (1988). All the specialists in the field basically think one thing. All respectable members of the political class - liberal and conservative, in this case – think another.

And never the twain shall meet, especially if the immigration enthusiasts have any say in the matter.

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Lynching, History and Analysis
A Legal Studies Monograph

Dwight D. Murphey, Ph.D., J.D.

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Evolution and the Future of Humankind

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Contemporary demographic changes, involving major disparities between diverse human populations, represent major evolutionary developments in the history of Humankind which dwarf the traditional rate of evolution by selection.

Key Words: Evolution, demography, dysgenics, territoriality, species, subspecies, ecological destruction

I have often been asked by students: What will the men and women of the future look like? My answer has always been the same. Perhaps it was a disappointing one for those students who imagined I might reply that the future men and women of the world would have only one eye, extremely large foreheads, or some other kind of imaginative fantasy normally associated with science fiction. But nevertheless, my reply has always stimulated interest among the more thinking members of the class. We cannot forecast, I would say, the physical appearance of the future population of the world a score or more generations from now, but it is possible to make a fairly accurate forecast of what the inhabitants of the world will look like just one or two generations from now. Most of the students had never for one moment contemplated the possibility that the men and women of the next one or two generations might look in any way different from the people they had been accustomed to seeing around them. Inevitably, the next question has been a repetition of the first: In what way will they look different? Again the answer was simple and uncomplicated: If you want to know what human beings will look like in the near future, just take a look at the people who are producing the most offspring.

Like my answers, the issue is very simple. When we are talking about evolution we should not be misled by any imaginative assumption that there is some basic principle that requires each generation of men and women to be necessarily brighter and more intelligent,

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more 'highly evolved,' than the previous generation. Indeed, the reverse has too often been the case in respect of different societies at specific times and places in history. It is no accident that every urbanized civilization in history has collapsed, either from external or internal pressures. Evolution is not committed to the further advancement of humankind, or of any particular species: untold numbers of promising species have disappeared into oblivion, when the casual observer would have imagined that they were destined for even greater genetic advancement and evolutionary 'achievement'. Evolution is concerned, ultimately, only with fertility, and with the survival of the offspring of the members of a species to the point where the offspring in turn will prove to be competitively successful as procreators of yet another generation. Evolution has no long-term goals, although those who adhere to the Judaeo-Christian tradition like to flatter themselves that human beings are the apple of God's eye and are in some way the forever-favored children of evolution. Evolution is, in reality, nothing more than a statement of what happens to life in the universe. No species or subspecies is predestined for biological advancement and glory. A species or subspecies may become extinct in much shorter time than it took to attain a position of eminence on the evolutionary ladder.

The Evolutionary Process

To what extent, then, may we speculate on the future course of evolution in respect of humankind? The answer is again straightforward. Not very far: there are too many imponderables. But we *can* positively identify the principles that guide the course of population change, although these are rarely discussed with the necessary frankness for fear of shattering myths around which an array of 'vested interests' have developed.

Many solemnly revered misconceptions and prejudices, such as are embedded in the popular notion that men and women are blessed with 'natural rights' and that the future welfare of humankind can be assured merely by honoring the 'rights of man,' have been grafted onto the cultural heritage of the Western nations, imposing powerful social pressures on the individual from childhood into adulthood. The destruction of these elaborate fantasies and ideologies could so totally disrupt the present social ethos that those concerned with maintaining stability conclude that it is more advantageous to protect

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the ideological status quo, based though this might be on a number of seriously false assumptions, than to risk turning society around by popularizing accurate scientific information about the nature and implications of biology in relation to human society.

Changes of population may take place very quickly over major areas, so that entire populations may disappear within a few generations, to be replaced by an analogous subspecies more capable of survival under the prevailing conditions. Because of its capacity to over-reproduce, the successful population will procreate – ample resources and breeding space being available – to fill the ecological niche that was formerly the property of its failed competitor.

Territoriality

As organisms at the top of the food chain, it is an ecological necessity that the higher mammals should tend to be territorial in their habits, or follow regular migratory patterns. Territoriality has survival value in that it ensures an adequate food supply to the resident population, but despite this, the pressure of population on resources is an ongoing evolutionary force. The surplus population of any one territory is always ready to fill any ecological niche it can control in neighboring territories. It is no accident that today there is only a very small number of apes surviving in the world, and that the rapidly burgeoning human masses of Africa and Asia are appropriating territories formerly utilized by other mammals.

Since territoriality – the control of an adequate supply of resources to sustain life – is so important at the mammalian and primate levels of evolution, cooperation between members of the 'deme' or breeding population has become an evolutionary necessity. All primates live in some kind of family, troop or band, and to a lesser or greater extent collaborate for the survival of the group – for the intergenerational survival of the group, via its offspring, rather than merely the survival of individual members within the group, even though group survival may also result in efforts by the group to to protect adult individuals.

Evolution and Mankind

Let us reflect on our species as a part and product of the evolutionary process. The highly complex inorganic material which was to evolve into organic life forms probably first existed on this

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earth in the form of minute chains of linked aminoacid molecules. Some of these eventually combined to form living organic matter. It is a somewhat sobering thought to reflect that at that time the earth's atmosphere contained no oxygen, and that the surface of the earth as we know it today, and even the oxygen in our atmosphere, is a product of billions of years of metabolic activity by living organisms. It is an even more sobering thought to reflect that the spontaneous emergence of 'organic' life, capable of complex ongoing and self-sustaining chemical interaction, can probably no longer occur on this earth, since the conditions under which life originally evolved no longer exist. Indeed, we would do well to remember always that life does not begin with the birth of a new child, or the propagation of a seed. Life is an ancient *and ongoing* process, involving species and subspecies, in which 'individual' organic beings are but links in an ongoing chain. The phylogenetic continuum, not the individual, is the vehicle which perpetuates life and which has biological meaning. In an evolutionary context, we are no more than trustees of the life force contained in our genes, and as individuals we are only important in that we hold in trust in our genes the destiny of our race. The life that is in each of us today is at least three and a half billion years old, and we are therefore the bearers of a very sacred trust; to ensure that our species continues to survive, and avoids degeneration, we need to endow the next generation with at least as good a collection of genes as went into the making of our generation. Our ability to do this depends upon a very simple and basic factor; it depends upon who mates with whom and how many offspring they produce, nurture, and raise to maturity – when they in turn are able to produce a further generation.

Speciation: The Reproduction and Multiplication of Life Forms

Because the conditions which permitted the spontaneous evolution of life ceased long ago, it is obvious that the early organic life forms that first emerged would probably have become extinct had they not, in some causal circumstance or another, just happened to multiply themselves, at first possibly by simple division – by dividing into separate living units. Reproduction made possible the survival of life, despite the repeated 'accidental' elimination of those individual living organisms that found themselves in unsuitable environments and failed to continue the vital self-sustaining metabolic

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process – or, in other words, died. Consequently, reproduction, the act of multiplication, became an essential activity for the survival of life.

Since matter and energy in the universe are in a continuing state of change, even the earliest self-sustaining primitive blobs of polymer jelly were liable to be affected by novel physico-chemical activities in the external environment. As a result of constantly changing conditions, certain forms of organic activity might be eliminated altogether, whereas others might experience modifications such as would permit them to survive in new ecological niches. In addition, survival was facilitated by the development of an ability to vary behavior to respond to changes in the environment, and this involved an evolution toward increasing complexity of structure and of the metabolic process. While, to this day, hundreds of thousands of separate species of simple life forms, such as bacteria and protozoa, still flourish, each well adapted to the problem of continued organic activity within a specific ecological or environmental niche, other species of life forms, far less numerous, have evolved sensory and nervous equipment which enables them to produce appropriate responses to facilitate their survival in changing environmental conditions. At the peak of this latter pyramid stand the Hominids, especially those with higher intelligence. Human sensory and reasoning equipment evolved sufficiently to enable our forebears to survive the dangers of the jungle and savannah – and later, amongst the forebears of Caucasoids and Mongoloids, to surmount the even tougher problem of ensuring that their offspring survivied harsh winters and were able to reach maturity and continue the reproductive process.

Phylogenetic Variation in Man

Evolution, then, has taken two routes. The first has led to the diversification of life forms into separate species and subspecies. A species is a recognizably distinct form of life which retains its distinctive qualities because it customarily does not cross-breed with other life forms. Genetically isolated for long enough, and subjected to ongoing selective processes, highly evolved populations tend to evolve into genetically distinct species which lose the biological ability to reproduce when crossed with other living species. In Nature, geographical barriers, lifestyles and living habits generally prevent the

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members of different species from crossbreeding (and thus losing their separateness) long before they have become so different from each other as to have lost the biological ability to crossbreed.

Such populations, which still retain the biological potential to crossbreed, but which do not normally interbreed because of either environmental or in-built psychological barriers, are called subspecies. In short, subspecies were evolutionary experiments – genetically distinctive populations which are on their way to becoming separate species. Evolution, representing the creation of thousands of millions of different species of life forms, as well as the creation of a hierarchy of highly complex and diversified animal and plant species, could never have taken place but for the evolutionary tendency for undiversified parental life forms to evolve first into separate and slightly different subspecies, and later into separate, mutually infertile, species. During the delicate time in which these experimental populations are at the subspecies level of evolutionary progress, but have not yet become sufficiently different to be mutually infertile, evolution would be impossible if each and every one of Nature's experiments were to be frustrated by reabsorption into the main bulk of the parental species. Because topographical barriers could not be relied upon to prevent this from happening in the case of the more sophisticated and highly mobile life forms, such as birds and mammals, built-in psychological 'prejudices' arose to prevent subspecific crossbreeding. Barriers which prevent the elimination of sub-specific differences as a result of miscegenation are essential to speciation, which is an inherent part of the evolutionary mechanism. Any relaxation in the evolutionary process must inevitably have negative evolutionary value, and is likely to be fatal to the population which experiences such a relaxation.

This last concept is of crucial importance to a proper understanding of the evolutionary purpose of 'race prejudice' among human beings – and to attempts to forecast the future of the human species. The diverse races of man originated as incipient subspecies – as different evolutionary experiments which, if genetically isolated for long enough under different conditions, would eventually have evolved into quite separate and mutually infertile species in the same way that the ancestors of man came to differ from other primate species and became biologically infertile in relation to them. Evolution to date has depended upon the relative genetic isolation of

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the various subspecies, each of which historically tended to comprise numerous even smaller communities or breeding populations, characterized by a high rate of inbreeding and consequent rapid selection potential. But during recent centuries, and especially recent decades, the various subspecies of man have become increasingly intermixed in many parts of the world. Human ingenuity has decreased the biological significance of geographical barriers where man is concerned, and indeed has also upset the overall ecological balance of such barriers for other life forms. Furthermore, psychological barriers to cross-breeding are weakening because the innate propensity for altruism toward members of the in-group, encouraging efficient cooperation amongst members of the group to promote its survival chances in competition with other groups, has become distorted in its operation. Team spirit has survival qualities in enhancing the competitive qualities of the group; but in today's world, technological achievements in communications have resulted in a confusion in the minds of the members of the technologically more advanced societies as to the limits and identity of the group to which they belong. Western nations in particular have largely lost their sense of distinctive identity, tending to extend their concept of "community" to embrace the entire population of living hominids. They overlook the fact that evolution is still at work, and living hominids are still engaged in fierce procreative struggle to parent the next generation of humankind.

Altruism in Relation to Genetic Competition

The prevailing withdrawal of the Western nations from the evolutionary struggle is a one hundred and eighty degree reversal from the natural function of altruism, which evolved as a mechanism that promoted the survival chances of the group in its competition with rival groups for control over life-sustaining resources.

As a result of the sociobiological confusion created by modern communications, most Caucasoid populations of today seem to be disinterested in ensuring the intergenerational survival of their own distinctive gene pool. They strive to suppress biologically meaningful inhibitions which would enhance the intergenerational survival of their own subspecies. The 'campaign against racism' has produced legislation and fiscal structures that repress in-group reproduction while providing financial and technical assistance to promote the

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growth of rival populations and subspecies. Interestingly, this trend is not common to most African, Asian and Latin American populations. These latter still strive to maximize their own populations and exhibit a high degree of biological competitiveness – with a tendency for members of their burgeoning populations to infiltrate other territories around the world, wherever they can obtain entry, in order to secure for themselves and their offspring a larger proportion of the available supply of global resources.

Evolution and the Future of Man

Let us now look once again at the process by which evolution occurs. In a natural environment, the process of selection operates to create a variety of diverse life forms, which survive through either (1) a 'passive' adaptation to the conditions of the environment, or (2) an ability to vary their responses to meet the challenge of survival in changing environments. This process of selection, however, is dependent upon another important proclivity – all living organisms that have survived to the present have done so because they have developed the tendency to over-reproduce themselves. In other words, evolutionary progress is dependent upon the tendency of species and subspecies to over-reproduce themselves, and over-population and the resultant competition for survival is an integral element in the evolutionary process. Without overpopulation, and imbalances in the rate of successful reproduction, little or no evolutionary change would take place. Thus, within any one breeding population there is a continual sifting and sorting of genes, as changes in the environment exert different selective pressures on population, favoring differently endowed individuals in the competition to produce offspring, thus ensuring the intergenerational survival of the phylogenetic continuum.

Many casual observers of evolution have assumed that competition to reproduce takes place solely among individuals within the same population. But that is not the case. It was not by accident that Darwin entitled his famous work, *The Origin of Species by Means of Natural Selection or The Preservation of Favoured Races in the Struggle for Life*.[2] Nor, perhaps, is it altogether an accident that the

[2] London, Murray, 1859.

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full title is seldom quoted, since although this may generally be attributed to its length, the full title undoubtedly disturbs those who seek an end to racial competition and the amalgamation of all hominid subspecies. The full title implies, quite clearly and with remarkable perception, that the requirements of evolutionary progress run contrary to the present-day trend toward racial intermixture. This plain fact is especially observable at the higher levels of evolution, where competition for survival is not merely between individuals but – possibly more significantly – between rival gene pools or even subspecies. Indeed, it is rival subspecies, depending on a similar source of food and closely similar ecological niches, that compete the most strenuously. Different species of plants and animals may well coexist very happily in the same ecological community, and tend to become interdependent upon each other in a balanced or only slowly changing pattern of inter-relationship. But similar subspecies are, by Nature, literally, competitors. Recent investigation into the evolutionary mechanism has shown that highly significant evolutionary changes often occur in a relatively short span of time as a result of the migration of one subspecies into the territory of another, with the less competitive passing into oblivion.

Similarly, it is not an accident that the reproductively more efficient, highly fertile masses of Asia, Africa and Latin America, guided by traditional cultures and sociobiologically-appropriate values which encourage reproductive competition, are today seeking out whatever niches may become available to them in the economically more successful nation-states of Europe and North America – seeking to enter and settle in these lands by any means, legal or illegal. By contrast, the Caucasoids of Europe and North America, who only a century ago had the technological and economic potential to expropriate the territories of most rival peoples and fill these with their own offspring, now devote a substantial part of their resources to providing technological and economic aid to the exploding Third World populations. Indeed, the Caucasoids of Europe and North America are failing to maintain the current levels of their own populations, and seem self-doomed to extinction because of their vastly inferior birth rate – which in Eastern Europe is plummeting with astonishing rapidity. Even in prosperous countries such as Germany, France, Sweden and Denmark, the native European population is failing to maintain its former levels, and seems quite

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unable to compete with the high birthrate of the non-European immigrants, who are being constantly reinforced by further immigration. Unlike the populations of their host countries, these immigrants still follow the demand of Nature to reproduce themselves prolifically. Some, particularly those of South Asian origin, consciously realize that life is still a competitive activity, and that their prime biological duty involves self-multiplication and a dedication to the welfare of their own offspring.

A Perverted Culture Can Eliminate a Population

Culture, as a product of intelligence and sociobiological drives, can promote the survival chances of individuals and populations. But once culture loses its sociobiological links, and works to discourage procreation and altruistic devotion to the survival of the deme, gene pool or breeding population, it ceases to have survival value. Indeed, perverted cultures – cultures which no longer promote the genetic survival of those who espouse them – can actually lessen the survival chances of a population. The evolutionary unfitness of the contemporary Caucasoids lies not in their genes but in their present-day culture: not in any medical or intellectual fitness but in their ideology and ethics. Their culture today teaches them to condemn all natural proclivities toward identification with their own kind, such as would incline them to seek to ensure the intergenerational survival of their own subspecies. In consequence they spurn any effort to protect for their own offspring the territorial and economic bases essential for the survival of living organisms, and instead devote their altruistic impulses not to the well-being of their own subspecies, but to saving and nourishing the offspring of those same subspecies that are outbreeding them. They are refusing to compete, as a biological unit, for survival under the prevailing socioeconomic and political conditions, because they have accepted a confused pot-pourri of self-destructive ideologies and moral concepts which have negative survival value.

The prevailing cultural values of the West even weaken the inter-generational gene pool of the nations so affected. In economies where redistributive welfare have been carried to dysgenic extremes, productive individuals tend to be taxed too highly for them to afford to raise children to the educational level to which they aspire, while the low-achieving and low-aspiring elements of the population are not

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only able to survive but are financially encouraged to reproduce themselves at relatively higher rates. Cultural qualities are not as persistent as genetic qualities; evolution does not extend credit to any species or subspecies just because it has handicapped itself with cultural values which are negative in impact from the point of view of phylogenetic self-survival. Evolution does not reward 'genetic altruism'.[3] The selective impact of evolutionary forces is both immediate and non-reversible. Those breeding populations, or even entire subspecies, which fail to meet the conditions for self-survival for even a short time-span of evolutionary selection, and who fail, in other words, to procreate successfully and to pass on to their offspring not only their genes but also the territorial and economic means for survival into the future, can have no phylogenetic future. No matter how superior their genetic qualities might be, no matter how impressive their potential for long-term evolutionary achievement, these qualities will not survive if their genes are not passed on.

Conclusion: The Darwinian Reality

Thus, the study of evolution – of the basic processes at work in the universe – inculcates one lesson above all others: it is not the meek who will inherit the earth, nor even the more altruistic or intelligent; the future belongs to the reproductively more successful. This will be true just so long as the more prolific are able to ensure that their numerous offspring will be able to penetrate new territories and obtain access to the additional economic resources they will need for their own survival and further multiplication. To those who ask what future generations of hominids will be like, I say again: Look around the world at the people who are reproducing the more prolifically, and you will see the people who, left unchallenged, will surely inherit the earth.

[3] The term "genetic altruism" refers to the willingness of specific members of a community, or of the world's population, to forego the opportunity to pass their genes on to future generations in order to assist other individuals or populations to achieve this goal.

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The Great Sex Divide

Glenn Wilson
Institute of Psychiatry, University of London

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Rural Development in Africa: The Role of Financial Markets

Gladson I. Nwanna[1]
Morgan State University, Baltimore

The majority of the countries in Africa depend in large part on the rural sector. It is believed that the future development of these countries will depend in part on the successes or failures in nurturing, supporting and developing the rural areas and the rural economy, particularly in making more financial services available and accessible to rural sector inhabitants. The rural sector on the other hand, is served primarily by the rural financial markets (RFMs), a market often characterized as grossly inadequate, poorly developed, small and shallow. In this paper the rural economy and the financial markets are examined with emphasis on the role, experiences, constraints and prospects of these markets, in particular the informal financial markets, for promoting rural development.

Key Words: Africa, rural financial markets, rural development

The majority of countries in Africa, it is believed, depend for sustenance, in large part, on the rural sector. Future development of these countries, or the lack of it, it is also believed, will depend in part on the successes or failures in nurturing, supporting and developing the rural areas and the rural economy, particularly in improving the plight of rural households, including support for their activities. After all, the majority of the population in these countries live and work in the rural areas.

The rural sector is served primarily by the informal financial markets (IFMs), which together make up a market often characterized as grossly inadequate, poorly developed, small and shallow. Regrettably, the lack of access to financial services is considered one of the major constraints to rural development in Africa, particularly to increasing investments and productive activities in the rural sector of LDCs. It comes as no surprise, therefore, that

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there is an observed heightened interest and efforts on the part of governments of African countries and Development Assistance Agencies (DAAs)[2] alike to explore avenues to strengthen and expand the rural financial markets.

This paper examines the rural economy and the informal financial markets in Africa, with particular emphasis on the role, experiences, constraints and prospects for promoting rural development. It also explores avenues for strengthening and expanding the rural financial markets.

The Structure of Rural Economy

The rural economy is characterized by the activities of rural inhabitants. The majority of these inhabitants in rural Africa are engaged in agriculture, often as smallholder farmers. Only a small number of rural inhabitants are engaged in non-agriculture, off-farm, income-generating activities (IGAs), often to supplement their agriculture-based income or are organized in these activities as the only earning activity and source of income. This latter group operate for the most part micro, small and medium scale enterprises (MSMEs)[3].

Agriculture

Agriculture,in all but a few countries including the petroleum producing and exporting countries, represents the largest sector of the economy of most African countries, supporting 50% of the population and contributing substantially to the GDP and to export earnings.

The agricultural sector is often characterized as comprising two-sub-sectors: the smallholders who often cultivate on traditional or customary land, and the estate operators who manage leasehold and/or freehold land. Within each category, other classifications are possible, based on the size of land or holdings. To provide a complete picture of the rural sector in these countries, one must add another category comprised of operators of small-scale non-agricultural enterprises. Reliable data on these categories for African countries as

[2] For example, the International Monetary Fund (IMF) and the World Bank. The term DAAs is also used here to include Donor Agencies.

[3] Mostly non-corporate.

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a whole, however, are not available. Available data for some countries for these categories often vary and are at times incomplete.

Smallholder Farmers

The family is the primary source of labor in the smallholder sub-sector. Technology is very rudimentary in the smallholdings, and land management is generally poor.

The majority of smallholders are subsistence cultivators with very low cash income levels and with a small proportion of their income coming from crop production and a much smaller proportion from off-farm IGAs. Generally, households with large land holdings tended to earn more than smallholders, and depend less on off-farm IGAs.

Insufficient capital and a lack of access to credit have been explicitly recognized as one of the critical factors influencing and limiting the growth of the smallholder sub-sectors in Africa, particularly in their adopting basic agricultural technologies and engaging in other off-farm income-earning activities. Other constraints impacting on rural households' productive capacity include limited land for expanding the area under cultivation and mounting population pressure, which is contributing to the increased fragmentation of holdings and encroachment into marginal lands. The increasing cost of external transportation, poor rural infrastructure, the limited access to information and insufficient human capital amid a policy environment that generally is not effectively supportive have all contributed to the lack of growth in the smallholder sub-sector in Africa.

Estate Operators

In the African countries mainly characterized by an estate-agriculture subsector, the estates have been known to operate on leasehold land and/or freehold land, and often occupy large portions of land. These estates generally specialize in the cultivation of cash and export crops, and employ for the most part rural inhabitants. Unlike smallholders, estate farmers have generally benefitted from and are favored by formal sector lenders and even by government programs. For the most part, they have suffered less from the lack of access to credit and critical technology that characterize smallholders. Nevertheless, they all share in some common problems, including insufficient investment capital and limited arable land, particularly in

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those countries with population pressures.

MSMEs

Micro, small and medium enterprises (MSMEs) also play an important role in the survival of rural households in Africa. Available studies on rural households have normally differentiated the constituents of the sub-sector by sizes of loans distributed. Although very little is known about the actual number and operation of MSMEs in Africa as a whole, it is believed to be considerable. The estimates vary from country to country. MSMEs in rural areas of Africa are engaged in a variety of activitiesthat include production, trade and services, but are mostly in the latter two areas.

The activities of MSMEs run across various categories of the rural household. Generally, MSMEs engage in off-farm activities either part-time to supplement agricultural income or full-time as the main source of employment and earnings. Many MSMEs, like the majority of rural households, are faced with a shortage of capital, and have no access to institutional finance. Existing financial institutions do not cater to these groups for several reasons, including (a) the lack of collateral and (b) a preference for handling sizeable rather than smaller loans. Furthermore, the procedures for obtaining credit are generally too cumbersome for the largely illiterate, rural poor. Without alternative opportunities brought about by specific developments in terms of resource mobilization, accessibility to credit facilities, and an enabling policy environment, the expansion of small-scale industries and off-farm IGAs will continue to be limited. The expansion of this sub-sector is particularly important for rural development in the face of increasing land constraints in a growing number of African Countries.

The Rural Financial System

In this section, recognition is made of the fact that almost all of the economies in Africa depend heavily on agriculture, which accounts for over 50% of all exports and occupies the time of over 60% of the population, the majority of whom are smallholders and a small number of whom are engaged in non-non-farm IGAs. These smallholders and MSMEs constitute the clients of the rural financial markets, and their financial needs will have to be addressed. If growth is to take place in the rural sector of African Countries, there will be

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need to address the financial needs of rural inhabitants. Furthermore, if the sector is to survive and continue to contribute significantly to

TABLE 1

COUNTRY	Commercial Banks located in Urban Areas	Commercial Banks located in Rural Areas	Post Office Savings Banks in Urban Areas	Post Office Savings Banks in Rural Areas	Rural based Non-Commercial Banks
Sierra Leone	22[1]	8	13	0	7
Ghana	204[2]	104	N/A	N/A	N/A
The Gambia	4	3[3]	1	N/A	0
Burkina Faso	5[4]	N/A	N/A	N/A	N/A
Benin	16	0	1	0	0
Cote D'Ivoire	14[5]	0	N/A	N/A	N/A
Mali	7[6]	0	N/A	N/A	N/A
Niger	6[7]	0	46[8]	N/A	N/A
Senegal	9[9]	0	N/A	0	N/A
Togo	8[10]	0	41	N/A	N/A

SOURCE: **Questionnaire Response from Central Banks of the respective Countries (1996).**

[4] Five Headquarters operating in the capital of Freetown and 17 branches of these banks operating in Freetown and district headquarters in the provinces.

[5] Total count may include branches.

[6] Includes one branch.

[7] With four branches presently serving the agriculture sector.

[8] With 164 branches (Urban-rural breakdown not provided).

[9] With 50 branches. (Urban-rural breakdown not provided).

[10] No breakdown of branches.

[11] No Urban-rural breakdown.

[12] With 60 branches. (Urban-rural breakdown not provided).

[13] 14 branches.(Urban-rural breakdown not provided).

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the overall development, a properly functioning and well-developed rural financial system will be needed. The rural sector in Africa and the rural population in Africa, it would appear, have not been adequately served by the rural financial system. Access to financial services remains limited, and in some cases access to formal finance remains non-existent. In fact, the lack of access to formal financial services is considered one of the major constraints to increasing investments and productive activities in the rural sector of African Countries. It is estimated that about 50% of rural households and micro-entrepreneurs may not have access to adequate formal and informal financial services. This is especially true of the rural households.

The Market Structure

The rural financial system in Africa is mostly similar to the system in most LDCs. It is comprised of, for the most part, the activities of formal and informal financial markets[14], together with their respective institutions. The former are also semi-formal financial institutions (SFFIs), non-banking financial institutions (NBFIs) and formal organizations providing a variety of financial services. With the exception of Nigeria, which has a growing number of rural branches, only a few Formal Financial Institutions (FFIs) in Africa are actively engaged in providing services to the rural sector. FFIs, for the most part, tend to be urban-based, as the following sample survey data from West Africa will indicate (Table 1), and tend to specialize in other types of clients or non-agriculture activities. In several of the

[14] The activities of Formal Financial Markets (FFMs) /Formal Financial Institutions (FFIs) are regulated and are subject to official and direct monetary controls. This contrasts with the activities of Informal Financial Markets (IFFMs)/Informal Financial Institutions (IFFIs), which are often not subject to review and control by monetary authorities. For a general and elaborate discussion and usage of the terms "formal" and "informal", see Gladson Nwanna, "Stimulating Savings in the Informal Financial Sector of Less Developed Countries" *The Journal of Social, Political and Economic Studies*, Washington D.C. (Vol. 14, No. 3. Fall 1989); Anan G. Chandavarkar, "The Non-institutional Financial Sector in Developing Countries: Macroeconomic Implications for Savings Policies," *Savings and Development*, No. 2, 1985, p. 129; Holst, Jurgen, "The Role of Informal Financial Institutions in the Mobilization of Savings," in Dennis Kessler and Pierre-Antoine Ullmo, eds., *Savings and Development*. Paris: Economica, 1985. Note: The term FFM is used in this paper to include the activities of Semi-Formal Financial Institutions (SFFIs) such as development financial institutions.

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countries, many of these FFIs are still dependent on the government and/or external donors, and many are yet to be viable and self-sustainable.

Informal finance, on the other hand, continues to play a significant role in meeting the credit needs of rural inhabitants and MSMEs. Its contribution, however, is limited by a host of factors, including legal constraints and inadequate financial resources. Despite the role played so far by both formal and informal finance in rural Africa, it is evident that the needs of the rural sector are still poorly and inadequately met by both formal and informal finance. The rural financial markets, in particular, continue to be characterized by a number of weaknesses including[15] (a) limited access to rural customers, (b) high cost of services, (c) absence of savings facilities, (d) financial non-viability, (e) lack of active competition, and (f) inability to expand services to respond to and create opportunities. Finding effective methods of deepening the rural financial markets and making more financial services available to rural inhabitants remain challenges facing the governments in most African Countries.

Stock market activity is virtually non-existent, again with the exception of a few emerging capital markets in South Africa and Nigeria.

Formal Finance in the Rural Sector

The formal financial sector (FFS) in the countries of Africa consists largely of a central bank, commercial banks, finance houses, building societies, development finance institutions (DFIs), savings institutions and the insurance industry. The latter is often comprised of insurance companies and brokers, as well as pension and provident funds. Of these, only a small number[16] - typically commercial banks, the Post Office Savings Bank and a number of Non-Banking financial institutions - are actively present or engaged in providing financial services to the rural sector and to MSMEs. The majority of FFIs tend

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[15] Von Pischke, J. D., Adams, Dale W. and Donald Gordon. *Rural Financial Markets in Developing Countries: Their Use and Abuse*. Baltimore, The Johns Hopkins University Press 1983, p. 227.

[16] Von Pischke, J.D. *Finance at the Frontier: Debt Capacity and the Role of Credit in the Private Economy*, EDI Development Studies, The World Bank, Washington D.C., 1991, p. 173.

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to be located, and their services concentrated, primarily in the urban sector.

The reasons for the inadequate investment financing and other financial services to the rural sector are many and varied for both the formal (FFS) and the informal (IFS) sectors. FFS institutions often view most rural-sector activities as non-bankable, among other factors, because of the (a) high risk of default associated with small operations, (b) high transaction costs (c) the absence of suitable collateral, and (d) the lack of banking experience among rural households. Other related reasons have included the uncertainty of the production patterns and the unfavorable investment climate, often due in part to prevailing government policies. The IFS, on the other hand, has developed appropriate tools and techniques for providing financial services to the rural sector and to micro-enterprises, but often lack the breadth, depth and term-transformation to provide the full and appropriate range of financial services.

Commercial Banks

The presence of commercial banks in the rural sector is limited to savings mobilization. Although commercial banks have been instrumental in providing some credit to the rural sector of a few of the countries, much of the credits have often gone primarily to finance estate agriculture. Very little or no credit is provided the majority of smallholders and microenterprises that dominate the rural sector. In several of the countries whose financial sector is undergoing reforms, particularly those whose economic programs have aggressively been supported and/or backed by the IMF and the World Bank, e.g. Ghana, the financial sector reform efforts are envisaged to provide an environment that will encourage as well as increase the commercial bank and formal-finance presence in the rural sector.

The Post Office Savings Bank (POSB)

The POSB plays a leading role in savings mobilization in rural Africa. In some countries the POSB is believed to hold perhaps the largest amount of rural savings with FFIs. And in many other countries the POSBs command the most visible presence among FFIs operating in the rural sector. In addition, the POSB often has the most extensive network of deposit-taking facilities nationwide, a large number of which are located in the rural areas.

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The close proximity of POSB facilities to rural savers and its widespread rural locations have contributed to its growth and popularity in some of the African Countries. In some of the countries the competitive interest rates and tax-exempt interest income status of post office savings have also contributed to their growth and popularity. In almost all of the countries, however, the POSB is only legally mandated to mobilize domestic savings, and hence cannot engage in credit allocation to the private sector. This inability to extend credit to the private sector, in effect, has often limited the ability of POSBs to provide a wide range of financial services. This discourages some rural savers, particularly those who plan to borrow from their banks. Clearly, the POSB has the potential to become a much more effective institution in intermediating between the financial markets and reaching more rural households. To be able to do this however the operation of the POSB needs to be strengthened and its mandate expanded to allow it to engage in resource allocation.

Non-Bank Financial Institutions (NBFIs)

The activities of NBFIs in the rural sector are limited and so are their services to MSMEs. The limited range of financial services provided by these institutions to MSMEs and rural households include credit, savings facilities, training and business advisory services. Most of these institutions, nonetheless, with a few exceptions, are engaged primarily in resource allocation, being for the most part prevented by law from mobilizing domestic resources. This, coupled with the fact that a good number of these NBFIs continue to experience some difficulties and are yet to be self-sustainable, raises concerns about their ability to continue to provide services to the majority of their target group. Many continue to depend on the government and foreign donors. The lack of independence, inadequate resources, and a restricted mandate are all factors that need to be addressed if they are expected to contribute significantly to rural development. It is important to allow some of these institutions to broaden their activities and to engage in both resource allocation and mobilization. A more immediate need, however, is for these institutions to be strengthened and made self-sustainable.

Experience of Formal Finance

Formal finance presence and activities in the rural sector

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generally remain small and limited to just a few institutions. Most FFIs have not been particularly active in the rural sector. They have basically been urban-based and non-agricultural focused. Their reluctance to service the rural sector and small businesses has been attributed to a variety of factors, some of which have been noted earlier. Even among the formal and semi-formal institutions presently providing services to the rural areas of LDCs, many are still not as active as expected nor have they been quite effective and successful in fulfilling their mandate. The lack of independence from the government for most of the institutions, the legal restrictions on their activities and inadequate financial and human resources are all constraints that continue to limit their services. This is in addition to management-related problems and the usual institutional and operation problems of dealing with the rural sector; the latter, range from poor infrastructure and inadequate training, to high loan delinquency and low recovery rates.

Constraints

In general, formal finance activities in rural Africa have been adversely affected by a host of factors and constraints both internal and external. The net effect on rural development, however, has varied, fluctuating more or less with the health of the economy. The decade of the 80s was particularly noteworthy to several African countries as a period characterized by many economic uncertainties that included external shocks and high inflation. These uncertainties added to existing constraints, creating a situation which continued to hinder formal finance institutions' ability to mobilize savings and extend credit to the rural sector. In addition, it created gaps for rural financial services that the informal sector must continue to fill. By and large, the economic situation, as always, continues to provide a challenge for the governments and the impetus for government interventions.

Informal Finance in the Rural Sector

The Informal Financial Sector (IFS) plays a highly important and significant role in the allocation and mobilization of resources in Africa, particularly in providing financial services to rural inhabitants and to MSMEs at a comparatively lower cost and risk than FFIs. Principal sources in the informal financial markets in Africa include

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moneylenders, traders, estate owners, grain-millers, friends, relatives, neighbors, businesses and employers. They also include mutual and social welfare associations such as saving and credit associations (SCAs), cooperative savings associations (CSAs)[17] and community funds (CFs).

The factors that account for the existence of IFIs in developing countries and that explain their activities and popularity among rural households and microenterprises seem to be the same across the majority of African Countries. These factors include: (1) autonomous factors (which relate to the functioning and organization of the indigenous economy; (2) the characteristics of the informal financial markets (which relate to the unique and informal nature of its activities); (3) repression of formal and semi-formal financial markets; and (4) the prevailing macroeconomic environment (conditions and policies).

Whereas FFIs remain reluctant in servicing the rural sector and consider the rural-sector activities as non-bankable, among other limiting factors, the IFS, on the other hand, has developed appropriate tools and techniques for providing financial services to the rural sector and to micro-enterprises. IFIs, however, often lack the breadth, depth and term-transformation to provide the full range of financial services. For the most part they are often unable to meet the demands for their services due to inadequate resources and their inability to access formal finance.

Although the actual size and financial contributions of IFIs to rural development are not known for certain, due to the inherent characteristics of the market, they are believed to be considerable[18]. Credit supplied by the IFIs to rural households goes to finance and

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[17] A popular form of Cooperative Savings is the Rotating Savings and Credit Associations (ROSCAS). CSAs are similar in operation to the so-called "pyramid schemes" that have surfaced from time to time in several parts of developed and less developed countries alike. Several states in the US, for example, have banned such schemes. For detailed discussion on ROSCAS, see Bouman, F.J.A. "Indigenous Savings and Credit Societies in the Third World: A Message," *Savings and Development*, 1, 4, 1977, pp. 181-214.; Nwanna (1989); World Bank: *World Development Report*, 1989: Financial Systems and Development, p.114.

[18] J.D. Von Pischke, Dale W. Adams and Gordon Donalds. *Rural Financial Markets in Developing Countries: Their Use and Abuse*. Baltimore, The Johns Hopkins University Press, 1983.

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support a variety of activities, including consumption, investment, and savings. Depending on the type, IFIs charge various rates of interest on their loans. The rates range from zero nominal rates often charged by friends, relatives and neighbors, to up to 100% per month by some moneylenders. The majority of the loans from IFIs are short-term loans, partly due to the nature of their funding and income sources.

IFS Institutions and Moneylenders

Not much is documented about IFS in Africa. Research in this area is limited, and reliable data are hard to find. Moneylending, on the other hand, is indigenous to Africa and has a history dating back several decades. Moneylending as a trade or profession, as in several developing countries and societies, is not legally approved or recognized in most west African countries, although it has not been officially disapproved either. Many moneylenders in Africa engage in the trade full-time; others operate on a part-time basis while still engaged in other jobs or businesses.

Moneylenders are numerous in Africa, and their activities permeate both the urban and rural areas. Moneylenders, in particular, play a significant role in servicing some of the credit needs of a majority of rural residents with little or no access to formal finance. They have also been credited with financing the start-up of several SMEs in Africa. The sources of start-up capital for moneylenders vary. They range from past savings, and earnings from agriculture and other IGAs, to salary and wage earnings. Additional funds come from interest income on previous loans, and, in some cases, cheaper funds borrowed from other sources (including other moneylenders).

There is, however, much less variation in the lending pattern among moneylenders. Moneylenders in Africa generally extend credit to anyone who meets their basic criteria of personal knowledge and/or has collateral or a guarantor. Several of the moneylenders interviewed indicated that they are, like formal lenders, equally concerned about the ability and willingness of the borrower to repay (the possibilities of default).

The terms and conditions of credit vary. The rates of interest charged also vary, ranging between 25% to 100%. The effective rate of interest on loans is estimated to be as much as 30% per month.

Loans by moneylenders are mostly short-term and are based on personal knowledge of the borrower. Many loans by moneylenders

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require no collateral. In some cases, however, a guarantor may be required. The size and terms of the loan depend on the resources of the moneylenders, as well as on the degree of personal knowledge and the quality of collateral or guarantor. In the event of default or non-payment, the creditor may have recourse to the guarantor. And when that fails, confiscation of the debtor's property is a common alternative. Generally, they wait longer and are more open to re-negotiation than FFIs. Because of the absence of an official recognition of the trade, moneylenders rarely resort to the court system to seek redress. There are no reliable data on loan recovery and loan default.

Several factors limit moneylenders in Africa from being much more active in delivering their services and hence in contributing more efficiently and effectively to resource mobilization and allocation. The foremost constraint is the lack of legal or official approval and sanction of the profession; as a result, moneylenders have had to operate very much in private (underground). Furthermore, the absence of such recognition has had the effect of inadvertently preventing moneylenders from using the legal system to enforce loan recoveries. Inadequate financial resources also limit their ability to extend more loans to those in need, and the lack of recognized "legal status" denies them the alternative opportunity of directly and openly seeking financial help from the formal financial sector.

Estate Owners (Landlords)

Estate owners in Africa have also been instrumental in resource allocation, in particular among tenant households. Most of them are engaged primarily in the production of cash and export crops. The majority of these estates employ tenant labor to produce their crops, supplying them with inputs and provisions on credit.

Estate owners in Africa are believed to play a significant role as resource allocators. The majority of the loans made by estate owners to tenants are made at the considerably lower interest rates.

Most estate owners demand some form of security from tenants, although for an equally large number of them only the tenants' signature was all that was needed. Although defaults are not common since for the most part tenants sell their products to the estate owners, rarely, in the case of any defaults do estate owners

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take action, for fear of losing their tenants. Although it is estimated that some estate owners derive some of their income indirectly, through lending to tenants, and some devote some of their time to lending, there is no indication that estate owners provide regular credit to non-tenants or to borrowers outside the estates.

Estate owners in Africa are generally more fortunate when it comes to access to additional funds. As noted previously, commercial bank loans to the agricultural sector have gone mostly to the estate subsector. Those estates that engage, for the most part, in the production of commercial and export crops often possess ownership and title to their land, which is an important consideration for loan qualification.

Traders, Grain Millers, Smallholder Farmers and Other Lenders

Not much specific data is available on the activities of these IFIs, especially as it relates to resource allocation. Similarly, not much is known about the terms and conditions of their credit.

The amount of credit advanced by traders is not known for certain. The credits are basically in the form of cash advances or credit sales of commodities. Very low interest is charged on these loans, and in some cases, none at all. The latter is usually the case where the intention is to attract clients and promote sales, although the low nominal rates sometimes charged by traders may in fact be made up by high product prices. The default rate varies among the rural communities, ranging from relatively low to relatively high. As with many IFS institutions, inadequate resources limit the ability of traders to service more clients. Generally, the demand for credit from traders is often surpassed by the amount of available resources, and their inability to access additional funds from the formal financial sector means they must in turn deny credit to many potentially needy and credit worthy clients.

Besides traders, grain millers also play an important role as creditors in rural Africa. Most of the loans command little or no interest charges. Non-interest-bearing loans are not uncommon, and have been used often as a way of promoting friendship and good public relations. The average loan repayment time is less than one year. Very little or no default rate is reported for this group. The amount of loans extended by grain millers is often limited by shortage of loanable funds.

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Smallholder farmers also extend mostly short-term credit among themselves. Only in a few instances is interest charged on these loans. As a way of to promote solidarity and reciprocal obligations, most of the loans are interest-free. Smallholder loans are generally small in size, with an average repayment time of six months. The default rate on smallholder loans is generally small. Smallholders, like grain millers and traders, have not been successful in making a substantial amount of loans or term loans vis-a-vis FFIs because of insufficient financial resources. Access to formal-sector credit for this group is very limited.

Mutual Aid Institutions

These include savings and credit associations (SCAs), cooperative savings associations (CSAs) and community funds (CFs). SCAs play a significant role in the mobilization and allocation of resources in the rural areas of Africa. SCAs are found in both urban and rural areas. Participants include persons from all walks of life. Essentially, each member contributes a fixed sum of money to the fund as agreed upon. Money accumulated in the fund may then be lent to members or non-members. At the agreed termination date for the fund, the total sum accumulated, including interest, is distributed to members. SCAs ranging from 2 to 250 is not uncommon. Most SCAs in Africa are formed by workmates, neighbors, friends, relatives and business colleagues. The primary reasons cited for joining an SCA have included using it as a source of future loans, earning money for members, and as a way of saving.

The actual number of rural households who take part in SCAs are not known, or their contribution to the rural and national economy. It is however believed to be considerable. Interest rates charged on loans vary between SCAs. Rates also vary for members and non-members. Non-members are often charged more.

Moral suasion and peer pressure are often used to encourage regular contributions and repayment of loans. In the event of non-payment of a loan over a prolonged period of time, some SCAs resort to other measures, including automatic direct deductions from the member's salary. This practice, however, is common with urban-based SCAs whose members, as well as primary loan beneficiaries, are salaried workers.

SCAs in Africa generally are limited in their ability to generate

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more resources due in part to the inability of members and potential members to earn more from their respective activities. Many, however, have proved successful in intermediating an allocating resources in the economy, most of which go into productive uses.

Cooperative Savings Associations (CSAs)

CSAs, commonly known in the literature as rotating savings and credit associations (ROSCAs), are as indigenous to Africa as are moneylenders. Unlike with Savings and Credit Associations, in CSAs members contribute equal sums of money periodically, which is then given to members in turns in its entirety, one member at a time. Once every member has taken a turn, the CSA technically dissolves and a new arrangement may be started. CSAs, also known by different

TABLE 2
Rotating Savings and Credit Assocoations in Africa
(ROSCAS/CSAs)

COUNTRY	LOCAL NAMES
Cameroon	Njangi, djanggi, tontine, credit rings
Egypt	Gameya
Ethiopia	Ekub, Ikub
Gambia	Osusu
Ghana	Nanemei akpee
Ivory Coast	Diaou moni, Wari moni,
Malawi	Chilemba, Chilyelano
Niger	Asusu
Nigeria	Esusu, Isusu, Dashi, Adashi, Oha, Bam
Senegal	Tontine
Sierra Leone	Asusu
South Africa	Umagelo Clubs, mahodisana
Sudan	Sanduk, Khatta
Uganda	Chilemba
Zaire	Ikelemba, Kitemo, Osassa
Zambia	Chilemba
Zimbabwe	Chilemba

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names in different parts of Africa (See Table 2) are an important source of savings mobilization. Membership in CSAs is considered larger than in SCAs. The sizes of CSAs vary, ranging from 2 to 50 persons per CSA. Most groups, however, tend to have less than ten members. The composition of the groups tend to also vary along income, religious, sex, occupational, geographical and blood lines. CSAs are nonetheless found to be popular among low-income rather than among higher income groups.

The majority of CSAs, like SCAs in Africa, are formed among workmates, friends, relatives and neighbors. In forming CSAs, members indicate being motivated primarily by the desire to raise money and by the desire to force themselves to save money. For many members, the fostering of friendship and solidarity is as important as the other benefits derived from CSAs. The majority of CSA members spend their respective allocations on various items, some more productively than others.

Community Funds: (CFS)

Community groups in Africa are also active in the mobilization and allocation of financial resources. Community funds can be found in urban as well as in rural areas. The composition of these community groups varies; some are religious groups, some are social, and some civic. Individual villages within several large village communities have set up funds, with membership comprising the entire village, some part of it or a group of villages forming or constituting a community fund. The size of membership of CFs in Africa varies. In some areas a community fund may comprise of as few as 50 members

Financial resources of CFs come primarily through group work and member financial contributions. Of resources mobilized through work, the majority of the funds come from members performing agricultural work for pay. In some CFs additional resources are derived from interest earnings on loans extended to members.

Resources mobilized by CFs are largely spent on community projects, with a relatively smaller proportion going to finance private emergencies. Many CFs in Africa lend to their members with or without interest. Where interest rates are charged, they have been known to range from 5% to 50%.

Staff and Social Welfare Funds

Institutions engaged in resource mobilization and allocation in the

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rural sector of Africa also include employers, friends, relatives and neighbors. The activities of these groups have often filled a void in financial services usually not met by formal financial institutions.

The contribution of employers stems from their ability to lend out their organization's funds set aside for this purpose. In other cases, it may involve special funds contributed by employees themselves, especially senior and better-paid employees. In some cases the loans are interest free, and in other cases they may command some interest, usually at rates less than the market. The loans are generally short-term with average repayment time of less than twelve months.

Loans between friends, relatives and neighbors are also popular in rural areas of Africa. The loan amounts are usually small in size and for short periods, averaging two months. Most of the loans are usually interest-free. Interest-free loans are often regarded as a way of promoting and maintaining friendship, solidarity and social relationships.

No estimates are available on resource allocation by sources for the IFS as a whole. However, it is estimated that the total amount of loans expended by the IFS is considerable. Overall, the pattern is for a majority of IFS loans to be used for productive purposes.

Constraints

Several constraints prevail in the IFS in Africa. Many of these constraints limit the ability of the IFS in contributing more to the development effort. Some of the important constraints are partly as a result of government policies (fiscal, monetary and commercial) and development strategies that have been unsupportive and passive. At times, these constraints have undermined their existence and role. This passiveness maybe explained by the lack of legal recognition given to some of these IFS and their activities -for example, moneylenders, a position which effectively limits their ability to grow and to compete. Despite the successes recorded by some of the IFIs, generally these institutions have been unable to meet their resource needs and, consequently, the demand for their services. An inadequacy of resources has become a basic characteristic of almost all of the IFS institutions. The limited funds available to them have gone mostly toward meeting short-term financing. Very limited term financing is available, and very few of the institutions, if any, have the resources and legal authority to introduce pertinent instruments as

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exist in the FFS or to take advantage of Central Bank facilities. Invariably, the ability of the IFS to mobilize additional resources is equally limited by other government policies and strategies. Noteworthy, are those policies relating to agriculture, land ownership and the development of MSMEs and IGAs, as these are intricately tied to earnings and savings ability.

In addition to the problem of availability of funds, there is the related problem of inaccessibility to such funds. As pointed out earlier, informal finance comprises the activities of a host of institutions that are largely concentrated, as well as those situated in the rural areas. These institutions, historically, have had very little access to formal financial services in general and credit from formal finance, in particular. Beyond operating savings accounts with some of the FFIs, there appears to be no linkage or mutual collaboration between the FFIs and IFIs. This lack of a formal and sustainable relationship has, in effect, limited the ability of IFIs to access resources needed to provide more of their services to MSMEs and the rural sector. These institutions are in effect deprived of the ability and resources to expand and grow.

The informal financial sector is without doubt an important and integral subsector of African economies.The size of the IFS has been shown to be quite large. The contribution of the sector to resource mobilization and resource allocation in the economy as a whole, however, is becoming evident. Similarly, its contribution to the economic development and welfare of inhabitants in Africa places the IFS in a position to play a much more pivotal role in the on-going government initiatives to promote growth through poverty-alleviation.

Experience of the Informal Sector

Informal Finance in rural Africa is both extensive and diverse, accounting for most of the financial services provided to the non-corporate and rural sectors. IFIs have been instrumental in mobilizing and allocating resources in rural areas, especially the latter function. Their contributions in the area of resource allocation have been, primarily, in providing mostly short-term (cash and/or input) credit to rural households and MSMEs. In addition, they provide financing for larger, long-term investments, although to a much lesser degree. For the most part, IFIs do not have the capacity to lend long-term and, therefore, rarely provide term financing. Much of the credit

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provided by the majority of the IFIs does not require the traditional and formal forms of collateral, and is interest-free, or commands very low nominal rates. Of crucial importance is the overall relatively high level of satisfaction often reported by MSMEs and rural inhabitants particularly, about the services provided by IFIs vis-a-vis FFIs. Whereas IFIs are embraced, in part, due to factors[19] such as the speed in processing and extending credit, flexibility concerning repayments, the "non-formal" atmosphere of activities and the minimum of formal requirements and protocol, rural residents often cite the relatively high cost of dealing with the FFM as reasons for dealing with IFIs. These costs include[20] inefficient administration, lengthy application procedures, untimely arrival of credit, inflexibility of repayment procedures, and necessity for proof of collateral, as well as the cost of bribes.

CONSTRAINTS

Several constraints prevail in the IFS, many of which limit not only the growth of IFIs, but their ability to expand and to contribute more to rural development. Some of the constraints are partly the result of government policies and development strategies that have been passive and unsupportive. At times these constraints have worked to their detriment, making it more difficult for them to provide more services to rural households and to small businesses. This is in spite of the potential impact of IFIs on macro-economic management and on rural development. The apparent lack of real interest in the sector perhaps explains the paucity of data and the limited number of studies on the rural financial sector in Africa.

In addition to the lack of real recognition and strong support for the contribution of Informal Finance to rural development, most of the IFIs in Africa face the problem of inadequate financial resources. The lack of access to formal finance and the absence of linkage and

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[19] Marvin P. Miracle, " Economic Incentives for Loan Agents", in J.D. Von Pischke, Dale W. Adams, and Gordon Donald, *Rural Financial Markets in Developing Countries: Their Use and Abuse.* Baltimore, The Johns Hopkins University Press, 1983, p. 214.; J.D. Von Pischke, *Finance at the Frontier: Debt Capacity and the Role of Credit in the Private Economy*, EDI Development Studies, The World Bank, Washington D.C., 1991, p. 220.

[20] J.D. Von Pischke, Dale W. Adams, Gordon Donald, *Rural Financial Markets in Developing Countries: Their Use and Abuse.* Baltimore, The Johns Hopkins University Press 1983, p. 239.

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collaboration with the formal sector impede their inability to provide services, particularly loans to needy clients. These stem in part from those constraints which in effect prevent IFIs from borrowing from the formal sector for on-lending. Incidentally, most of the IFIs have succeeded in reaching a lot more rural households and small scale enterprises than have FFIs, and have had success and experience in providing financial services to these groups. It appears prudent, therefore, that efforts aimed at rural development, as well as those aimed at making financial services available to the rural sector, include strategies that will include or link the activities of IFIs as well as engage their participation. Legal recognition and support particularly from the IMF and the World Bank, at least as a first stage approach to linking IFMs and IFIs to the formal system, should in the long-term have a net positive effect on rural development. It will also help in deepening the financial system. In the meantime, IFIs in Africa continue to play an important role in meeting the needs of a growing number of rural inhabitants, and continue to complement, in most cases, the activities of the formal and semi-formal financial institutions.

Financial Sector Reform

As part of the effort to restructure the majority of ailing African economies and to bring discipline to their troubled economies[21], many governments of Africa, with the assistance of the IMF and the World Bank, continue to embark upon intervention strategies. These strategies have often culminated in a series of macro-economic reforms. The reforms are particularly important as they are often aimed to (1) provide the needed foundation and ingredients to broaden and deepen the financial system, (2) propel sustainable economic growth, and/or (3) support a broader socio-economic agenda targeting rural development.

In recent years, key objectives of government policies and reforms have included efforts towards: (1) maximizing deposit mobilization, while promoting an efficient resource allocation; (2) promoting market determination of interest rates, and (3) fostering efficient financial intermediation based on a competitive financial system.

[21] Most recently, the Francophone West African countries.

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Ongoing changes that have taken place so far in some of the countries include the discontinued use of credit ceilings and the deregulation of interest rates. Although it is envisaged that some of these reforms will have some positive effects on rural development particularly in the areas of rural savings mobilization and credit allocation, it is not as yet clear how long the governments of many of the presently distressed countries will continue to support and promote such policies.[22]

Notwithstanding the breadth and depth of the ongoing reform efforts in some of the African Countries, financial markets in almost all of the countries remain small, fragile and underdeveloped and rural-sector development continues to remain slow and lagging. Obviously, there now appears among several of these countries an important and urgent need, not only to develop but also to integrate the rural-sector development into the broader framework of overall national development effort. Incidentally, any successes with this effort will depend in large part on efforts made by the governments and policy makers to broaden, deepen and strengthen not only the formal financial markets but also the informal rural financial markets. Only then would access to financial services to rural households and MSMEs, a major constraint to their growth, be increased and sustained. African country governments could be assisted in this process by exploring those policies and programs, among others, that will enhance capacity-building and minimize the risks and costs often associated with servicing the rural sector and MSMEs. They could also be assisted by exploring those policies and programs that will link the formal and informal markets, together with their respective institutions, instruments and participants.

Certainly such a link will benefit the two sectors and the economy as a whole, and may effectively reduce some of the risks often attributed with providing financial services to MSMEs and the rural sector. Already some complementarities can be observed in services provided by the two financial subsectors in the areas of mobilization of savings and allocation of credit. Furthermore, the formal and informal markets are already operating in both the rural and the

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[22] A few years ago, the Nigerian government, for example, effectively reneged on its reform efforts, reintroducing, instead, restrictions and controls on interest rates and foreign exchange.

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urban areas of Africa. What appears to be lacking, however, are a better understanding and interest in each other's market and activities, cooperation, competition and effective linkage. Equally lacking is a cohesive and sustained government effort and support in promoting the IFS institutions and their activities. Despite the role played by the IFIs, their activities are not clearly and adequately reflected in the governments' plans. Government policies do not appear fully to recognize their impact and role, let alone include them in the government's strategies for promoting rural development. Suffice it to point out that to the extent that the government of African countries takes a more supportive role in the IFS through appropriate policies and instruments, and without attempting to disrupt the basic structure of the Informal Financial Market, one may envision a significant growth of rural financial markets in Africa and an increased contribution by the IFS to the overall development effort.

Summary and Conclusion

With the growing interest in rural development and as African Countries focus attention on the rural sector in particular, and to the development and integration of this sector as part of an overall national development effort, rural financial markets should play an important and pivotal role. Development of rural financial markets should be expected to become not only an integral part, but also the foundation over which such developments will become viable and sustainable, at least in the long term. Incidentally, for the majority of the countries in Africa, growth of the rural financial markets remains not only stifled amidst numerous constraints, but small, shallow, and poorly developed and linked. Nevertheless, the role of the market remains more alive than ever with potential and prospects for contributing immensely to rural development.

Existing constraints and structural weaknesses notwithstanding, RFMs continue to perform credibly in several of the African Countries. RFIs have been instrumental in mobilizing savings as well as extending credits to rural sector inhabitants and to MSMEs which ordinarily would not have obtained such credits. Undoubtedly, many of these institutions presently serving the rural sector and the rural financial markets as a whole have the potential for growth. They also have the potential to increase their activities and to contribute more

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to rural development. For them to do that, however, there appears to be a need (1) for more support for their activities, some of which must include the creation of an enabling economic, social, political and policy environment, (2) for linking and forging collaboration between the markets, (3) for deepening rural finance and rural financial intermediation, (4) for minimizing the risks of providing financial services to the rural sector[23] and (5) for capacity-building of both institutions and infrastructure. Exploring some of the strategies and options suggested in this paper should facilitate, as well as lead to a meaningful level of accomplishment of, these objectives. Only then can African countries begin to fully appreciate the real contributions and pivotal role of the rural sector in the overall growth and well-being of the national economy.

[23] Some of these avenues have been addressed by Gladson I. Nwanna, "Financial Risk and the delivery of Financial Services to the Rural Sector of LDCs," *Scandinavian Journal of Development Alternatives and Area Studies*, vol. 16, No.1, 1997, pp.33-43.

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The Effect of Public Employee Unions on Intergovernmental Grants

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Most studies of intergovernmental grants have either examined the so-called "flypaper effect" or the economic justification for grants. Justification of grants usually involves efficiency and equity arguments with the political dimension of grant allocation typically ignored. One part of this political dimension are public employee unions who desire to increase grant monies in order to increase public payrolls. Public employee unions may increase the grants received by cities in two ways: (1) a "lobbying effect" where public employee unions increase grants by pressuring state and federal legislators and (2) a "cost effect" where public employee unions increase grants by raising the costs of public services. It is found that, in general, police and firefighter unions do increase state and federal grants to cities. In addition, there is evidence for both lobbying and cost effects.

Key Words: Trade unions, public employees, federal grants, state grants, lobby groups

The vast literature concerned with intergovernmental grants has focused primarily on two issues: the impact of grants on local expenditures and the economic justification for intergovernmental grants. In terms of the first issue, many studies have investigated the "flypaper effect" which is the observation that grants have a greater effect on local government spending than a similar increase in community income. In terms of the second issue, two rationales are usually given for the existence of intergovernmental grants: efficiency and equity. According to the first rationale, grants can compensate jurisdictions whose public services generate interjurisdictional spillovers while the equity rationale argues that grants can assist communities with below-average income levels. However, the grant literature has almost completely ignored the political rationale for

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allocating grants.[2]

Two exceptions to this omission are papers by Raimondo (1983) and Grossman (1994). Raimondo developed a political-economic model to explain variation in state aid to local governments. He argued that in addition to the standard efficiency and equity reasons, state politicians allocate grants to local governments (counties in this study) to increase their chances of reelection. As predicted, it was found that counties whose voters supported the incumbent governor, had volatile voting patterns and had high voter turn-outs received higher levels of grants than other counties.[3]

Grossman formulated a political theory of intergovernmental grants based on the assumption of vote-maximization by federal politicians. He asserted that grants can directly buy the support of state voters or can buy the support of state politicians and interest groups. Politicians and interest groups, in turn, will use their "political capital" to rally support from individual voters. It was found that similarity in party affiliation between state and federal politicians and a larger Democratic majority in a state legislature increased per capita federal grants made to a state. In addition, interest groups in a state, measured by the size of government employment and union membership, increased the amount of grants a state received from the federal government.[4]

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[2] Many of the papers that investigated the budgetary impacts of intergovernmental grants are summarized in Gramlich (1977). Recent studies of the flypaper effect are Wykoff (1991), Turnball (1992), Stine (1994) and Samkar and Oates (1996). An extended discussion of the efficiency rationale for grants was given by Oates (1972), with a recent study of the issue being Shroder (1992). The equity argument for grants was developed by Buchanan (1950), with recent studies of the issue being Downes and Pogue (1992), Reschovsky and Schwartz (1992) and Wykoff (1995). Similar to this paper, Ladd (1990) and Ladd and Yinger (1989) investigated the determinants of state grants to cities but they examined these determinants within the efficiency/equity framework.

[3] One result that did not support the political-economic model was the coefficient for the sharevote variable. Sharevote was the total votes cast by local jurisdictions in the governor's first election. While this was expected to have a positive effect on grants received, it usually had a negative effect.

[4] Breton and Scott (1978), explored a political rationale for the allocation of federal grants but had a very specific hypothesis. The authors argued that grants from the federal government to states were a pay-off to the states who in return gave up spending control to the federal government. Another paper that explicitly explored the political rationale behind government spending was by Wright (1974). However, Wright concerned himself with the New Deal distribution of federal spending among the states, not intergovernmental

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I will extend the research into the political dimension of intergovernmental grants. Like the above two papers, I assume that politicians allocate grants to local governments in order to increase their popularity among the voters. Further, like Grossman (1994), I assume intergovernmental grants can be used as a pay-off to special interest groups who are supportive of politicians. However, the special interest groups I examine are municipal public employee unions which are an important factor in the distribution of resources in many municipalities.[5] Public employee unions have a special concern in how grants are allocated because, unlike voters, they can directly increase their incomes if their lobbying efforts are successful in raising public payrolls.[6] One of my goals is to determine if public employee unions can use their political influence to increase the level of intergovernmental grants, both federal and state, to municipal governments. Thus, unlike the earlier studies, I examine grant allocation at the municipal level instead of the county or state level. This may be the more appropriate level since it is usually municipal governments who are the direct recipients of grants. Another difference from the earlier papers is that I investigate the allocation of grants from both the state and federal governments instead of just focusing on one of these levels of government.[7]

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grants.

[5] In 1980 almost 18 percent of state and local governments either had collective negotiations or meet-and-confer agreements with their public employees. Among the states, these figures varied from a low of zero in North Carolina and Virginia (where bargaining is prohibited) to 58.2 percent in New Jersey (Troy and Sheflin, 1984).

[6] In his paper, Grossman used two interest group variables: state and local government employees per capita and union membership per capita. The view of this paper is that public employee unions are a more appropriate measure of public employees as an interest group than using state and local government employees per capita. The latter may include many unorganized workers and it may be very difficult for these workers to act as a cohesive group (Olson, 1971). In addition, public employee unions are also viewed as a more appropriate group to investigate than union membership per capita because the latter includes many private sector union members. For these union members, benefits from increased municipal grants may be small or not easily recognized.

[7] Apparently, most grants to municipalities go to cover operating costs as opposed to financing capital projects. For example, in the late 1970's only 27 percent of all federal revenue sharing funds (revenue sharing is a major federal grant program) went to local capital expenditures (Census of Governments, 1977). Indirect evidence is provided by the type of functions financed by federal and state grants. In 1983, almost 84 percent of federal grants went to 3 categories: education, public welfare and revenue sharing. Given

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Political influence, however, is not the only means by which public employee unions may increase the level of grants. Public employee unions can increase the costs of local public services through the collective bargaining process and through the local political process. Thus, local governments with bargaining agreements or politically active unions may have high and increasing service costs relative to their revenue base. Some grant programs, particularly those at the state level, include fiscal need as a factor to determine the level of grants a community receives (Raimondo, 1983).[8] Therefore, another goal is to separate this "cost" effect of public employee unions on the allocation of grants from the "lobbying" effect discussed above.

The next section contains a more detailed discussion of the effects of public employee unions on intergovernmental grants. My investigation is limited to police and firefighter unions because these services are provided by almost all communities regardless of population.[9] Section III describes the empirical model employed to

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that few of the funds in these categories go to capital spending, it appears most federal grants do not go to capital spending. For state level grants in 1983, almost 75 percent of grant monies went to 2 categories: education and public welfare. Again, since few of the funds in these categories go to capital spending, it appears that most state grants also do not go to capital spending (Advisory Commission on Intergovernmental Relations, 1985). However, even capital spending grants could still be used to increase public employee payrolls by releasing monies for current operating costs.

[8] For grants by state governments, the importance of fiscal need as a distribution factor was supported by a study by the Advisory Commission on Intergovernmental Relations (ACIR, 1982). Specifically, it was found that tax burden was a significant determinant of per capita state grants to municipalities. A specific example of a state grant program that uses fiscal need is state revenue sharing grants. A study, also done by the ACIR (1980), showed that tax capacity or tax effort was used to distribute 23 percent of all state revenue sharing funds. For grants by the federal government, at least directly, fiscal need appears to play a lesser role in the distributions of grant monies. Of formula-based grants in 1987, only 8 out of 134 programs used taxation, expenditure, government employment or government salary levels as a determinant of fund distribution (ACIR, 1987). However, this figure may understate the effect of fiscal need as a factor in the distribution of federal grants. Federal grants tend to flow to central cities where relative tax levels are high (ACIR, 1981). Thus, though a grant program does not directly use fiscal need as a criterion, indirectly fiscal need may emerge as a factor in grant distribution.

[9] Public employee unions are found in garbage and transit services but these services are only provided by the largest cities. Teachers are commonly involved in unions but school districts are usually not coterminous with municipal boundaries. In addition, spending on police and fire departments make up a significant portion of overall municipal spending. Of the cities contained in the data sample of this paper, police expenditures accounted for 12.9 percent of municipal expenditures while fire department spending

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investigate these effects. An examination of the empirical results is presented in Section IV, and Section V contains conclusions.

II. Grants and Public Employee Unions

In the introduction, two means were offered as to how public employee unions may cause a municipality to receive more intergovernmental grants: a cost effect and a lobbying effect. As described above, one source of the cost effect is the existence of collective bargaining agreements.[10] The objective of unions in the bargaining process, i.e., how much weight unions give to compensation relative to employment, has not been definitively settled (Addison and Hirsch, 1986; Farber, 1986). However, numerous studies indicate that bargaining agreements increase the compensation of public employees and so raise labor costs for municipalities (Ehrenberg, 1973; Schmenner, 1973; Ehrenberg and Goldstein, 1975; Bartel and Lewin, 1981; Zax, 1988). Other studies indicate that collective bargaining may also lead to higher employment (Zax and Ichniowski, 1988; Zax, 1989). Lastly, a number of studies show that public employee unions lead to higher department spending (Benecki, 1978; Gallagher, 1978; Zax and Ichniowski, 1988; Valletta, 1989).[11] In sum, there is ample evidence

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accounted for approximately 8 percent of total municipal spending. Thus, for the average city in the sample, over 20 percent of total municipal spending went to these two protective services.

[10] Of the 256 cities in the sample used in this paper, 166 had unionized police departments and 143 had unionized fire departments. Of the unionized police departments, 141 had collective bargaining agreements and the same figure for fire departments was 118.

[11] A dissenting note on the employment and department spending findings is found in O'Brien (1994). Though he found that collective bargaining increased compensation for police and firefighters, it had a disemployment effect of similar size. Because of these offsetting effects, bargaining had no net effect on either police or firefighter department spending. However, unlike these earlier studies O'Brien explicitly controlled for political activities. He found that union political activity, not bargaining, increased employment and department spending. In the earlier papers, the bargaining variable may have been picking up both the bargaining and political effects of public employee unions. Thus, collective bargaining appeared to increase compensation, employment and department spending. Though the authors of the earlier studies recognized both the bargaining and political effects of public employee unions, they had no way of disentangling the separate effects. In terms of determining the bargaining goals of public employee unions, these separate bargaining and political effects make a difficult task even more complicated. However, the

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that bargaining by public employee unions, including police and firefighters, increases the cost of local government services.

Political involvement by public employee unions in municipal government can also cause a cost effect. Unlike employess in the private sector, public employees can directly influence their employers (politicians) through the political process. This political influence is designed to increase the demand for public employees and so can increase both their compensation and employment.[12] For the police and firefighter unions I sampled, Table 1 shows the seven types of political techniques they were engaged in and how popular each activity was. Examination of item eight in the table indicates that almost two-thirds of the police unions and over seventy percent of the firefighter unions were involved in at least one political activity. Further evidence of the popularity of union political activities is found in the mean figures. MEAN1 is the mean number of union political activities calculated for all police and firefighter unions and MEAN2 is the mean number of union political activities calculated for those police and fire unions that engaged in at least one political activity. The value of MEAN1 was approximately two for police and fire unions while MEAN2 was approximately three for both unions. Thus, these figures indicate that the typical police or firefighter union is active in the municipal political process.

Table 1 also shows there is significant variation in the popularity of the different political activities. The most popular were the election activities – candidate endorsement, candidate financial contributions and manpower or in-kind contributions. Less popular were mismanagement disclosure threats, publicity campaigns and taking issues to referendum. These latter activities, unlike the election activities, involve a direct appeal to voters rather than to politicians. Because voters may realize that union political activities increase the costs of public services, it may be more difficult and so more costly for public employee unions to use these techniques.

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results of O'Brien are suggestive of the notion that the primary goal of bargaining is to increase compensation while political activities are designed to increase employment.

[12] More thorough discussions of the interaction between union political activity and demand for public employees are found Ehrenberg and Schwarz (1986), Freeman (1986) and Zax (1989).

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Table 1

Union Political Activities

Activity	POLICE # of unions	POLICE % of unions	FIRE # of unions	FIRE % of unions
1. Candidate endorsement	82	49.4	71	49.6
2. Candidate financial contributions	54	32.5	59	41.2
3. Manpower or in-kind campaign contributions	37	22.3	49	34.2
4. Mismanagement disclosure threats	18	10.8	10	7.0
5. Publicity campaigns	44	26.5	43	30.1
6. Taking issues to referendum	13	7.8	17	11.9
7. State-level lobbying	70	42.2	76	53.1
8. Involved in no political activities	58	34.9	41	28.7
MEAN1	1.92		2.27	
MEAN2	2.94		3.19	

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Do political activities increase the compensation, employment and department spending for public employees? The few studies that exist indicate that the answer is yes. With data similar to that used in this paper, O'Brien (1992) found that union political activity increased both compensation and employment for police and firefighters. In a later paper, O'Brien (1994) found that while union political activities did not increase compensation for police and firefighters, they did increase employment and department spending for both protective services. Thus, it appears that like bargaining, union involvement in municipal politics increases labor costs and so may cause a cost effect.[13]

Purposefully ignored in this discussion was item seven in Table 1: state-level lobbying. Recall that one of my goals is to separate the cost effect on the allocation of grants from the lobbying effect and this lobbying variable plays a crucial role in this process. While the above activities are aimed at the local political process, lobbying is the only activity aimed at state legislators. Thus, while the other activities are designed primarily to pressure local politicians to increase union compensation and employment, lobbying is designed to pressure state politicians to pass legislation favorable to public employee unions. Obviously, this state legislation would include, though would not be limited to, how intergovernmental grants were allocated from the state to municipal governments.[14] Therefore, in my empirical analysis the existence of state-level lobbying by unions represents the lobbying effect of public employee unions while the other activities will represent the cost effect of union political activities. Though it is possible the other political activities may have a lobbying effect, particularly the election activities, this effect is much more direct through state-level lobbying. Note that state-

[13] Though the effects of collective bargaining and political activity are discussed separately, they can be seen as complements. Through bargaining public employee unions increase wages but may also cause a disemployment effect. Political activities, by shifting out the demand for union employees, may be a means of escaping this disemployment effect. Thus, pursued together bargaining and political activity can obtain both higher wages and higher employment for public employee unions. Evidence for a lack of a wage-employment trade-off for politically active police and firefighters unions is found in O'Brien (1994).

[14] Lobbying may also be used to enact more favorable collective bargaining laws or to enact laws pertaining to law enforcement or fire protection.

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lobbying was a very popular political activity and in fact, was the second most popular activity for police unions and the most popular activity of firefighter unions. Thus, it will be determined if all this lobbying activity translates into higher state and federal grants for municipalities.[15]

III. Empirical Model

To determine the effect of public employee unions on the level of intergovernmental grants, a set of three regressions are specified. The dependent variables of these regressions are, respectively, the total state grants, total federal grants and total grants (state plus federal grants) received by a municipality. Explanatory variables in the regressions include socioeconomic variables that affect the amount of grants received as well as those variables that measure the effects of public employee unions (definitions and sources for all variables are found in the Appendix). The sample for these regressions is a national cross-sample of 256 cities with populations over 25,000.[16]

To measure the cost effect of collective bargaining, two bargaining dummies are included in the regressions. The first takes a value of one if there exists either a police or firefighter bargaining agreement in the municipality; otherwise it equals zero. Thus, this variable takes a value of one if only one of the protective services in a city is covered by a contract. The second bargaining dummy takes a value of one if *both* the police and firefighters have collective bargaining agreements with their municipality and equals zero, otherwise. Each variable may have a positive effect on the level of grants since in

[15] In the section of the paper that discusses the empirical model, a public employee unionization variable will be introduced. It will measure the overall political power of public employee unions in a state. Obviously, this variable reflects the voting and lobbying power of public employee unions in an entire state. However, when the term "lobbying effect" is used in this paper, it refers only to any effect that lobbying by local unions has on intergovernmental grants.

[16] Cities with populations less than 25,000 were excluded because some variables were not available for these cities. Cities from the following states were represented in the sample: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Virginia, Washington and Wisconsin.

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either case there is upward pressure on service costs. However, there may be some type of threshold before bargaining affects the level of grants; and so the existence of only one bargaining agreement may not be sufficient to increase grants. Thus, one can argue that the existence of two bargaining agreements is more likely to increase grants than the existence of only one agreement.[17]

To measure the cost effect of political activity by police and firefighter unions, a simple index was formed from the political activities of both unions (except for state-level lobbying). Specifically, this index was calculated by assigning a one to a union if it was engaged in a particular activity and a zero if it was not. The entry for each activity was summed and then divided by twelve, the total number of political activities possible for police and firefighters combined. Thus, higher values of this index, called the political index, represent higher levels of union political activity in a municipality. If these political activities are successful in increasing demand for public employees, this should increase costs and increase the need for revenue. Thus, this index should have a positive effect on the amount of grants received by a city.[18]

The one activity omitted from the political index was state-level lobbying, and it is included in a separate index. Whereas the political index measures the cost effect of public employees, the lobbying index, measures the lobbying effect of public employee unions. It is formed by assigning a one to a union if it is engaged in state-level lobbying and a zero, otherwise. This value was summed for both the police and firefighter unions in a municipality and then the sum was divided by two. One shortcoming of this index is that it only measures state-level lobbying, not federal lobbying by police and firefighter unions. Thus, the index should have a more direct (and positive) effect on state-level grants. However, if the index proxies lobbying activity in general, the variable should have a positive effect

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[17] These variables were specified in this manner because of apparent collinearity between the police and firefighter bargaining agreements. In regressions where separate dummy variables were included for police and firefighter bargaining agreements, the coefficients were significant but of opposite sign. This outcome suggests a collinearity problem.

[18] The political activities for both protective services were combined in one index because of collinearity. The correlation between separate police and firefighter political indexes was .85.

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on federal grants and the total amount of grants.[19]

The lobbying efforts of municipal unions take place in state legislatures and so their lobbying success depends to some degree on the political power of public employee unions in the entire state. As a proxy for the political power of public employee unions in a state, the regressions contain a variable that measures the percentage of public employees unionized in a state where a municipality is located. A higher percentage of unionized public employees within a state can translate into greater political clout for public employees because more unionized public employees means increased voting power and greater resources for lobbying. In turn, these resources can be used to persuade state and federal legislators to funnel more state and federal grant monies to municipalities. Therefore, this unionization variable should have a positive effect in all the regressions.

In a second set of regressions, an interaction term is added to the regressions and it is formed by multiplying the state-level lobbying dummy by the public employee unionization variable. This variable will determine if lobbying by municipal unions is more effective in states where there is a large percentage of public employees unionized, i.e., where public employee unions wield more political power. In effect, large numbers of unionized public employees may magnify the political power of any lobbying activities by police and firefighter unions. If this is true, the coefficient on this interaction term should be positive.

Other variables in the regressions control for the strictly economic determinants of grant allocation. The first is population of a municipality which is typically a factor in allocating grants (Raimondo, 1983). Generally, the more populous a city is, the more grants it will receive and so the coefficient on this variable should be positive. Second is a hardship variable and it is based on an index developed by Nathan and Adams (1976). This index is calculated using a number of factors: unemployment (the percentage unemployed in a municipality), dependency (the percentage of the municipal population which is over age 65), education (the percentage of the municipal population over age 25 which does not

[19] Again, one combined lobbying index was used because of collinearity between separate police and firefighter lobbying indexes.

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Table 2

OLS Regressions without the Interaction Term

	STATE GRANTS	FEDERAL GRANTS	TOTAL GRANTS
CONSTANT	-5.64***	-8.47***	-5.90***
	(-5.43)	(-13.23)	(-8.98)
POPULATION	.98***	1.30***	1.11***
	(9.86)	(21.30)	(17.68)
HARDSHIP	.26**	.87***	.52***
	(2.15)	(11.51)	(6.78)
TAX BURDEN	.0001	.001	.0006
	(.16)	(1.64)	(1.00)
POLICE OR FIRE BARGAINING AGREEMENT	.29	-.25*	.004
	(1.36)	(-1.87)	(.03)
POLICE AND FIRE BARGAINING AGREEMENTS	.57***	-.17	.20*
	(3.08)	(-1.50)	(1.72)
POLITICAL INDEX	-.15	.08	-.03
	(-.40)	(.36)	(-.12)
LOBBYING INDEX	-.03	.10	.03
	(-.17)	(.88)	(.24)
PERCENTAGE OF PUBLIC EMPLOYEES UNIONIZED	.48**	.34**	.41***
	(2.00)	(2.33)	(2.68)
ADJ-R^2	.34	.74	.63
N	256	256	256

All variables are in natural logs except the bargaining variables, the political index and the lobbying index. T-ratios are in parentheses. Asterisks denote significance at the 1 percent (***), 5 percent (**), and 10 percent (*) levels.

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have a high school degree), income (the reciprocal of municipal per capita income) and poverty (the percentage of municipal population which has incomes below the official poverty level). Higher values of this index represent higher levels of municipal hardship and if grants are intended to alleviate economic inequity across municipalities, then this index should have a positive effect on the amount of grants received.[20] Last is a tax burden variable and it is formed by dividing municipal tax revenues per capita by municipal income per capita. Some grant programs use this ratio to allocate funds since it is an indicator of local fiscal distress (Raimondo, 1983). Because these grant programs are designed to relieve fiscal distress, the coefficient on this variable should be positive.

In the regressions, all the dependent and explanatory variables are expressed in natural logs except the following: both the bargaining variables, the political index, the lobbying index and the interaction term.[21]

IV. Empirical Results

The empirical results without the interaction term are contained in Table 2 while the results with the interaction term are found in Table 3.

Examination of the economic variables in both tables indicates that they generally conformed to expectations. Coefficients for population and the hardship index were positive and significant in all regressions in both tables. On the other hand, while the tax burden variable always had a positive (though small) coefficient, it was only significant in the federal grant equation in Table 3. Thus, though more populous cities and cities that exhibit higher levels of hardship receive more state and federal grant monies, cities with high tax burdens generally do not. This was also found by Raimondo (1983).

The public employee variables gave a somewhat mixed outcome

[20] Though calculated in the same manner, the hardship variable used in this paper is somewhat different from that employed by Nathan and Adams (1976). The latter included a crowded housing variable in their hardship measure and for the dependency variable they also included persons under 18 years of age. These figures were unavailable for the hardship variable used in this study. The exact formula for the hardship formula can be found in Nathan and Adams or Raimondo (1983).

[21] These variables are not logged because they frequently have a value of zero.

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Table 3

OLS Regressions with the Interaction Term

	STATE GRANTS	FEDERAL GRANTS	TOTAL GRANTS
CONSTANT	-3.85***	-7.87***	-4.67***
	(-3.46)	(-11.23)	(-6.67)
POPULATION	1.01***	1.31***	1.13***
	(10.38)	(21.53)	(18.52)
HARDSHIP	.24**	.86***	.51***
	(2.04)	(11.48)	(6.81)
TAX BURDEN	.002	.001*	.0007
	(.21)	(1.67)	(1.08)
POLICE OR FIRE BARGAINING AGREEMENT	.44**	-.20	.10
	(2.05)	(-1.49)	(.77)
POLICE AND FIRE BARGAINING AGREEMENTS	.61***	-.15	.23**
	(3.39)	(-1.38)	(2.02)
POLITICAL INDEX	-.02	.13	.06
	(-.05)	(.55)	(.25)
LOBBYING INDEX	-1.98***	-.54	-1.31***
	(-3.64	(-1.59)	(-3.82)
PERCENTAGE OF PUBLIC EMPLOYEES UNIONIZED	-.06	.16	.03
	(-.24)	(.93)	(.18)
INTERACTION TERM	.05***	.001**	.03***
	(3.82)	(2.04)	(4.17)
ADJ-R^2	.37	.74	.65
N	256	256	256

All variables are in natural logs except the bargaining variables, the political index, the lobbying index and the interaction term. T-ratios are in parentheses. Asterisks denote significance at the 1 percent (***), 5 percent (**), and 10 percent (*) levels.

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in Table 2. The existence of only one bargaining agreement, though positive in two of the regressions, was never significant. Unexpectedly, the variable actually had a negative, significant effect on the level of federal grants. Thus, it appears that in cities where only one department is bargaining, municipal costs are not sufficiently elevated to affect the need for intergovernmental grants, state or federal.

For the second bargaining dummy, which indicated if both protective services had bargaining agreements, the results conformed to expectations in the state grant equation with the effect being positive and significant. However, while the effect was unexpectedly negative for federal grants, it was not significant. Finally, the coefficient for total grants was positive, significant and presumably reflected the results for state grants. Thus, for state and total grants, the existence of two bargaining agreements is sufficient to raise service costs by an amount that increases grant levels. At least in Table 2, there seems to be a threshold effect so that while one bargaining agreement will not cause state grants (and so total grants) to increase, the existence of two bargaining agreements will. However, this effect did not carry over to federal grants and a possible explanation for this may be that fiscal need is not an important factor in the allocation of federal grants. As stated above, fiscal need plays a more prominent role in the allocation of state level grants.

The two union political variables, the political index and the lobbying index, were never significant. For the political index, it appears that politically active police and firefighter unions do not increase costs by an amount that is sufficient to affect the amount of grants received. In addition, state-level lobbying by police and firefighter unions did not increase grant monies to a municipality. Thus, political activity by police and firefighter unions did not cause either a cost effect or a lobbying effect on the level of grants received.

Political power of public employee unions in a state, proxied by the percentage of public employees unionized in a state, had the expected positive (and significant) effect in all three regressions. It appears that increased political clout for unionized public employees in a state increases grant money to municipalities from both state and federal politicians. This is in contrast to the lobbying index which indicated that lobbying by municipal unions was not successful in

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bringing more grant money to a municipality. Results in Table 3 indicate that including the interaction term, formed by multiplying the lobbying index by the percentage of public employees unionized, caused some marked changes in the coefficients of the public employee union variables. In the state grant equation, both bargaining variables had a positive and significant effect on the amount of grants received. In Table 2 only the existence of two bargaining agreements increased the level of state grants. Thus, the existence of one bargaining agreement, as well as two, appears to increase service costs sufficiently to increase the amount of state grants. In the federal grant equation, while the bargaining variables still have unexpected negative effects, they were not significant. Thus, the anomalous negative coefficient in Table 2 disappeared with the inclusion of the interaction term. Similar to the earlier results, only the existence of two bargaining agreements significantly increased the level of total grants. Again, the lack of a cost effect at the federal level may reflect the unimportance of fiscal need when distributing federal grants. In sum, at least for state and total grants, collective bargaining by police and firefighter unions, singly or in combination, does exert a cost effect.

Similar to Table 2, the political index, representing the cost effect of union political activity, had no effect on any grant variable. However, contrary to expectations, the lobbying index coefficient is now negative (and large in absolute terms) in all the regressions and significant in the state and total grant equations. Before discussing a rationale for this outcome, the remaining coefficients are examined. Unlike the earlier results where it was positive and significant, the percentage of public employees unionized in a state is insignificant in all three regressions. However, the interaction term coefficient is positive and significant in all the regressions. Analyzing these latter two results together indicates that lobbying by local unions is effective only if there is sufficient political power of public employee unions in a state (i.e., a large number of unionized public employees).[22] Given this result, an alternative to the literal interpretation of the negative coefficients for the lobbying index, that lobbying by local unions

[22] Another interpretation of these results is that a large number of unionized public employees in a state increases municipal grants only if lobbying is being done by the local police and firefighter unions.

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actually decreases state and total grants, can be offered. What these negative coefficients may indicate is the converse of the interpretations for the interaction term: lobbying by local unions is not effective and is actually correlated with lower levels of grants in states where the political power of public employee unions is weak (i.e., a small number of unionized public employees in a state). This negative correlation may occur because, in states where public employee unions are weak, police and firefighter unions increase their lobbying efforts. As a result, while lobbying by local unions appears to decrease grants, what may actually be occurring is that low levels of grants are correlated with higher levels of lobbying by unions. In sum, a lobbying effect exists but only in those states where public employee unions have a sufficient amount of political power.

V. Conclusion

I raise two major issues. First, do public employee unions influence the amount of grants a municipality receives? Second, if they do, by what means do unions affect the level of grants: through raising costs for services, i.e., a cost effect; or through lobbying, i.e., a lobbying effect? For the first question, the answer is generally yes. In both sets of regression results, the existence of public employee unions is usually associated with higher levels of grants.

In response to the second question, the answer is more complicated. First, both estimation results, with or without the interaction term, show the existence of a cost effect. However, the source of this cost effect can only be traced to collective bargaining and not to local political activity by police and firefighter unions. Moreover, this cost effect was confined to state and total grants as neither collective bargaining nor political activity ever had a positive, significant effect on federal grants.

Secondly, there is evidence of a lobbying effect but only in the second set of regressions. In the first set of regressions, lobbying by local unions did not increase the level of grants though increased political power of public employees in a state did. In the second regression results, there was a lobbying effect but this lobbying by local unions was effective only in states where public employee unions had sufficient political power. However, from both sets of regressions, one can conclude that political power wielded by public employees, whether at the state or federal levels of government,

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appeared to increase grants received by a municipality. Public employee unions are behaving like any other special interest group. In a broader sense, my results reinforce the belief that the political influence of public employee unions is as important as their bargaining effects. Moreover, this influence is important at the state and federal levels as well as the municipal level of government.

APPENDIX
Variable Definitions and Data Sources

VARIABLE	DEFINITION	SOURCE
STATE GRANTS	Total state grants received by a municipality in 1985	3
FED GRANTS	Total federal grants received by a municipality in 1985	3
TOTAL GRANTS	State plus federal grants received by a municipality in 1985	3
POPULATION	1986 municipal population	3
HARDSHIP	Index calculated from the following variables:	
	1986 percentage unemployed in a municipality	3
	Percentage of the 1980 municipal population which is over age 65	3
	Percentage of the 1980 municipal population over age 25 without a high school degree	3
	1985 municipal per capita income	3
	Percentage of 1979 municipal population which has incomes below the official poverty level	3

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TAX BURDEN	Ratio of 1985 per capita municipal tax revenues to 1985 municipal income per capita	3
POLICE OR FIRE BARGAINING AGREEMENT	Dummy = 1 if the police or fire department in a municipality had a collective bargaining agreement with its union in 1988, = 0 otherwise	1
POLICE AND FIRE BARGAINING AGREEMENT	Dummy = 1 if both the police and fire departments in a municipality had collective bargaining agreements with their unions in 1988, = 0 otherwise	1
POLITICAL INDEX	Union political index for a municipality formed by summing the political activities of the police and firefighters unions (except state-level lobbying) between 1978 and 1988 and then dividing this sum by 12	1
LOBBYING INDEX	Union lobbying index for a municipality formed by summing the state-level lobbying variable for police and firefighters' unions and then dividing this sum by 2 (lobbying variable covers period between 1978-1988)	1
PERCENTAGE OF 1982 PUBLIC EMPLOYEES	Percentage of public employees unionized in a state where the municipality is located	2
UNIONIZED INTERACTION TERM	Formed by multiplying the lobbying index times the percentage of public employees unionized in a state	1, 2

Sources:

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2. Troy, L. and Sheflin, N. (1985). *U.S. Union Sourcebook*. West Orange, N.J.: IRDIS.
3. U.S. Bureau of the Census, *County and City Data Book*, 1988.

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BOOK REVIEW ARTICLE

Beyond Economistic Absolutism: The Postcommunist Transition from a Sociological Perspective

Aviezer Tucker[1]
Columbia University

Markets and People:
The Czech Reform Experience in a Comparative Perspective
Jiri Vecernik
Avebury, Aldershot 1996. 294 PP.

Institutional Design in Post-Communist Societies:
Rebuilding the Ship at Sea
Jon Elster, Claus Offe, Ulrich K. Preuss, Frank Boenker, Ulrike Goetting & Friedbert W. Rueb.
Cambridge University Press, Cambridge 1998. 350 pp

The collapse of the Soviet Empire ruined the careers of quite a number of academics. Some Sovietologists managed to adapt their skills and become experts on Russian affairs. But Kremlinologists, academic experts on deducing the Soviet power hierarchy from the position of leaders on Lenin's tomb during May Day celebrations, disappeared. Still, new academic specializations emerged after 1989. Chief among them is "Transition Studies," the study of the transformation of postcommunist countries from political totalitarianism and command economy to free market democracy. Many transitologists are economists.

Former Czech Prime Minister Vaclav Klaus used to compare the reformers and entrepreneurs in the postcommunist world to the first white settlers of America, of whom he said: "The settlers came first and the law second." But when the first white men came to America they faced an embarrassing surprise: though they assumed that they were going to the eastern part of India, they discovered they were actually in an unknown new continent. When economists came

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to transform the command economies of postcommunist countries, they also had to face an embarrassing surprise: the assumptions of classical economics fail in the postcommunist context because economic transitions take place within structured societies.

People do not behave in the real world as abstract economic agents of economic theory, as people who strive solely to maximize their profit in a market. Economic behavior is affected by the social contexts in which economic agents are embedded, by their affiliations with a social network – for example, their membership in the old nomenklature. The existence, integrity and independence of institutions such as the police and the judiciary determine whether the rule of law and property rights that are the foundations of any liberal economic system will be enforced. For example, if there are no regulations to prevent embezzlement and theft by company managers; or if the existing regulations are not enforced against criminals with political networks, the assumption of classical economics that wealth is created only by enterprise, labor and free exchange becomes irrelevant. Finally, traditions and habits keep influencing economic behavior irrespective of political changes. For example, the monopolies that dominate the Czech economy and the government bureaucracies that are supposed to control them continue their pre-1989 habits and norms.

The rules of economics are not like the laws of physics: they do not hold everywhere, but only when some social-institutional conditions are satisfied. As anybody who has read Hayek knows, a free market without the rule of law, without the institution of private property and an active, honest police and judiciary is impossible. A postcommunist economy where these social conditions are not reformed becomes a valhalla for the nomenklature.

The recent books by the transition experts Jiri Vecernik and the American-German research team headed by Elster, Offe and Preuss examine the neglected social aspects of postcommunist transitions. Vecernik, probably the best Czech social scientist, applies sociological criticisms of the assumptions of classical economics to offer a better social understanding of the Czech economic transition. Elster et al. compared the institutional changes after the fall of communism in Bulgaria, the Czech Republic, Hungary and Slovakia.

Vecernik examined the process of transition in the Czech Republic from the perspective of the Czech household: how did the

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changes since 1990 affect Czech families, their incomes, employment, survival strategies, poverty, welfare, and political approaches, in comparison with other postcommunist countries? Vecernik examined an impressive and massive array of statistical and survey data from which to draw his sociological conclusions. The strength of the book is in combining economic with sociological data to understand the peculiarities of the Czech transition.

For example, Vecernik uses sociological theory to explain why the Czech "privatization" process resulted in a continuity in real ownership from the Communist period. Before 1989 the state was the nominal owner and the managerial nomenklature exercised actual property rights. Czech "privatization" privileged the nomenklature whose strong social networks insured they had the capital, inside information, and de-facto government subsidies to go on controlling the businesses. Only the social structure of Czech society, the unity of the nomenklature and the passivity of society can explain the economic fact that at the end of the process of pseudo- privatization the state still is the nominal owner through the national property fund that owns the banks that own the investment funds that own the "privatized" firms. The incompetent nomenklature management continues its pre-1989 traditions by exercising actual property rights that lead to the "funneling" of company assets out of the country and consequently to loss-making. Then the bank managers continue in their communist habit of subsidizing firms through bank loans. Large privatization was a case of transition from "real socialism" to socialism without adjectives.

In the last chapter, Vecernik attempts to connect his conclusions about the socio-economic situation with political developments. He sees a trend of consolidation of party loyalty according to class interests. The last elections vindicated his thesis. Workers tended to vote for the Czech Social Democratic Party (CSSD) and entrepreneurs tended to vote for the former ruling Civic Democratic Party (the ODS of former Prime Minister Klaus). Still, Vecernik overlooked what is missing: civic society. In older democracies, interest groups, lobbies and professional associations mediate and connect the population with the political parties. This does not exist in the Czech Republic. Therefore the parties find it very easy to disregard the interests of their electorate and act in their own interest as was exemplified again after the last elections when the

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leaders of the "right" and "left" agreed to form a coalition to eliminate the Czech political center and weaken the power of president Havel by changing the constitution.

Elster et al. examined comparatively the transition of institutions in postcommunist societies. They measured the transitions by the separation of economic, legal and other institutions from the political institutions and by the establishment of clear, recognized and enforced constitutional rules.

When the authors finished their book in 1996, the Czech Republic seemed to them to be doing better than Hungary, Slovakia and Bulgaria. Though they understood well the situation in other postcommunist countries, they did not understand the nature of Czech pseudo-privatization. In fact, the Czech transition is quite similar to how they analyze the Slovak transition. In both countries the economic and political elites are meshed together and the judiciary and police are too corrupt or timid to enforce the rule of law on the politico-economic elite. The difference is in style and public relations. In Slovakia the politicians gave away state firms to their cronies, interfered crudely in the operation of the police and the judiciary and changed the constitution to serve political goals. Czech politicians did the same but attempted to hide it.

Unfortunately, public relations cannot maintain economic growth. The lack of restructuring of the Czech economy and institutions led to low productivity and loss of competitiveness that generated the current course of slow economic decline. Reversing the economic decline will require restructuring Czech institutions like the police, the judiciary, the state bureaucracies, and the education systems. It will require separating the economic and judicial institutions from the state and the consolidation of a constitution that will protect property rights.

The first post-1989 Czech political elite was of dissidents, intellectuals and philosophers. The second elite was of economists. Both shared a cynical approach to institutions. The dissidents valued personal decency and "life in truth" and perceived all institutions as inherently corrupt. The economists regarded institutions as natural obstacles to the success of entrepreneurs. Both were proven wrong. Without decent institutions, individual decency is under serious threat; without enforcement of the rules of free market competition and property rights, there are no incentives for economic growth.

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BOOK REVIEWS

Lenin: A New Biography
Dmitri Volkogenov
Translated and edited by Harold Shukman
The Free Press, New York, 1994

Dmitri Volkogonov, an historian and a former general in the Soviet Army, is uniquely situated to produce works of the utmost importance. Before the fall of the Soviet Union in 1991, he was Director of the Soviet Union's Institute for Military History, where, according to the Editor's Preface, he was "the first researcher to gain access to the most secret archives." His biography of Stalin incurred the wrath of Soviet officers in 1988; and now the book under review produces a fresh - and devastating - account of Lenin.

With such work as Volkogonov's appearing, the suffocating blanket of silence and of factual manipulation that prevailed for so many decades has been lifted. By the time *Lenin* was published in English in 1994, the editor could say that "there are virtually no taboos on historical research left" inside Russia. Volkogonov tells how he was originally a Stalinist, and how when his illusions about Stalin were shattered he fell back onto believing (as so many socialists worldwide have) that Leninism, at least, had been sound even though it was later distorted by Stalin. Eventually even this illusion fell away, with the result that the principal theme of *Lenin* is that all of the essential ingredients of the totalitarian state were put into place by Lenin himself. "The system created by Lenin would [thus] have found its Stalin in any event." If thoughtful people everywhere come to this realization, a major step will have been taken in the world's ridding itself of socialist illusion.

It was Lenin who initiated the subordination of human life to ideological objectives without regard to the number of lives lost. He, not Stalin, first introduced executions, mass terror, concentration camps, and slave labor. There was a "legalization of terror," with the Cheka shooting thousands in cellars without trial; a suppression of a free press; the subordination of trade unions to the state; the liquidation of "hundreds of thousands of private owners, middle and upper bourgeoisie, and intellectuals"; the crushing of the churches, with the slaughter of the clergy; and a callous acceptance of mass

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starvation, such as in 1921-22 when 25 million people were starving at the same time that copious funds were sent overseas to help Communist Parties foment what was hoped would be a worldwide revolution. Even such a list barely scratches the surface of what Volkogonov recounts from the archives.

Lenin has, of course, been unmasked before; anti-Communists have long known him for what he was. But Volkogonov's unmasking comes with all the details that the secret archives provide - and from a man who was once one of Lenin's devout followers. There will no longer be an excuse for anyone on the Left's maintaining that "Communism was itself a splendid thing as conceived by Lenin and the original Bolsheviks; it was Stalinism that lacked a human face." Volkogonov makes it clear that the face was inhuman all along, even though people believed in Lenin out of "the perpetual human longing for the perfect and just world."

This book has many facets, only a few of which can be touched on in a review. One worth highlighting is the confirmation Volkogonov gives to the details of the Bolshevik execution of the Tsar and his family. (This book was available in English in 1994. It is hard to believe that a major American movie studio could subsequently put out the animated film "Anastasia" without the slightest nod to the actual circumstances of Anastasia's death.)

Another that deserves emphasis is the confirmation, also, of the Soviet's execution of the cream of Polish society in the Katyn Forest in 1940. Volkogonov cites the Politburo minutes of March 5, 1940, agreeing to Stalin's order for the massacre of "14,700 former Polish officers, civil servants, landowners, police, intelligence officers, gendarmes, settlers and prison guards," as well as " 11,000 members of various counter-revolutionary espionage and sabotage organizations, former landowners, factory-owners," etc. This, of course, was cultural genocide. Volkogonov tells how the decision was made "to cast the blame on the Nazis." Of course, we already know that the indictment at Nuremberg charged the Germans with the slaughter. It speaks volumes about the fundamental dishonesty of the Nuremberg verdict that the Tribunal, whose members knew the true facts, passed over this charge in silence.

This impeachment of the credibility of the Nuremberg verdict is of untold significance to historians of the twentieth century. A great deal of the evidence for the existence of the infamous Nazi

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extermination camps, all of which are now said to have been in Poland and liberated by the Red Army, comes from what the Soviets supplied to the Tribunal at Nuremberg. This is bound to throw honest historians into the most profound evidentiary quandary.

For these and its many other details, revealed at last by an honest reporter who has access to the key records from inside the Soviet regime, Volkogonov's book deserves not just to be read, but to be studied.

Dwight D. Murphey

The Biotech Century
Jeremy Rifkin
Jeremy P. Tarcher/Putnam, New York, 1998

Jeremy Rifkin continues to write some of the most thoughtful, and at the same time intensely engaging, discussion of the emerging trends in the on-going scientific and technological revolution. His book *The End of Work* (1995) is, in this reviewer's opinion, the most comprehensive and penetrating analysis of the coming interplay between utopian promise and economic displacement. Now, with *The Biotech Century,* he opens our eyes to a vast new set of issues that will, without exaggeration, make the world stand on its head.

Even though we are just at the beginning of the biotechnological revolution, much has been done already, as each day's newspaper attests. Rifkin tells how much of the cotton grown in Alabama is already genetically engineered to kill insects. In 1996, a type of predator mite was let loose in Florida to devour other mites that destroy strawberry and other crops. Scientists are creating bacteria that can make plastics, and the first plastic-producing plant is expected in 2003. In 1997, the first mammal (Dolly, the sheep) was cloned. Genetically engineered human insulin is being produced. Work is going forward to render mosquitoes incapable of spreading disease. Human skin, ears, noses, heart valves, lungs, livers, pancreases, and bladders are being made in the laboratory; and Rifkin cites the prediction that,by 2020 95% of human body parts "will be replaceable with laboratory-grown organs." An anti-freeze protein gene is taken from flounders and spliced into tomatoes' genetic code so that the tomatoes will be frost-resistant. Likewise, chicken genes are put into potatoes. The first "DNA computer" (using

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DNA instead of silicon) has been built, and holds out the prospect of computers that will be one million times faster than the best computers today.

Research is rapidly eclipsing even these developments. The Human Genome Project, begun in 1988, is going forward vigorously. Other genome projects are mapping the genes of plants, animals and microorganisms. The Human Genome Diversity Project at Stanford University is taking blood samples from each of the world's 5,000 "linguistically distinct populations" so that those populations' genetic makeup can be studied. Work is being done to identify the genes behind 4,000 genetically-based diseases. In 1997, a headless frog was produced, and this points toward "organ farms" based on each person's own DNA. All this...and much more.

The Biotech Century is accordingly fascinating for the detail it provides. Its greater importance lies, however, in its invitation to the world to engage in a robust discussion of just what sort of science we want. Rifkin doesn't reject all of these marvelous developments out of hand, but he does point to many dangers that should receive the most thoughtful attention. Among other things, he points to the fact that there is no predictive risk-assessment science that can make possible a clear knowledge of the trade-offs - negatives as well as positives - that can come from intervening radically in the world's gene pool. Make no mistake about it, there are profound dangers. We should notice that, unfortunately, the debate between ecology and technology in recent years has been so wrapped up in ideology, and indeed in an abuse of science, that it's hard to tell how these dangers can possibly be assessed in today's world. In any case, there is wisdom in Rifkin's admonition to follow the old medical dictum of "first, do no harm. " (Going slow is easier said than done, however. There is enormous human market demand for the products that biotechnology can provide.)

An important distinction that Rifkin emphasizes, as we attempt to go slow, is between "somatic gene therapy" (which corrects a genetic problem within a given individual) and "germ line intervention" (which changes the inheritable traits for all successive generations and thus involves a permanent alteration of the gene pool). Here's a summary of what Rifkin thinks wise: "One could make a solid case for genetic screening – with the appropriate safeguards in place – to better predict the onslaught of disabling diseases,

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especially those that can be prevented with early treatment. The new gene-splicing technologies also open the door to a new generation of life-saving pharmaceutical products. On the other hand, the use of gene therapy to make corrective changes in the human germ line, affecting the options of future generations, is far more problematic, as is the effort to release large numbers of transgenic organisms into the Earth's biosphere." One cannot forget, however, that germ-line intervention which eliminated the worst genetic diseases would make it possible for affected individuals to confidently produce children free from such defects. Furthermore, unless germ line intervention is accomplished the "genetic load" of deleterious mutated genes, against which the Nobel-prize-winning scientist Herman Muller warned, is likely to continue to build in modern populations.

Radical choice will be forced upon us, whether we want it or not. Before much longer, parents may face legal liability to their children for a failure to have genetic screening done, followed up by such genetic therapy as seems indicated, before a baby is born. But exactly what gene therapy *will* be "indicated"? Somatic therapy to remove genetic diseases is one thing; intervention to change a potential human being's height, shape of nose, hair color, body type, ethnic characteristics, intelligence, behavior, etc., will call upon the parents to "play God"; and even a refusal to act will itself be a form of radical choice. And the issues go from there: will such matters to be left to parents? How much will governments, the law or a given culture determine the choices? Who will decide?

Everything we have cited so far lies in the realm of "prudential" pros and cons. They are matters that even the most secular and humanistic among us will want to consider. Such utilitarian concerns are not, however, all there is to it. Fundamental issues of values and of sense of life are at issue, and these most often involve theology and metaphysics. Rifkin, for example, wants us to oppose the "desacralization" of life-forms as they now exist. This leads to a vast area that he doesn't enter upon: what is the basis for a "sacramental" outlook; and what, if any, are its limitations? Sacramental views are not all alike. Just as with religion in general, they can range (as Augustinianism did) from an other-worldliness that denies all role to human beings as acting agents of change, to a secularized acceptance of much, if not all, that a non-sacramental view would allow. The revolution in biotechnology is ushering in questions of a complexity

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far greater than the abortion issue that has bedeviled the American body politic since *Roe v. Wade.* Indeed, the choices will be so radical that all of humanity may soon be engaged in a vast renewal of the religious wars that were so horrible in Europe a few centuries ago. Are we ready? When Rifkin calls for "robust discussion," he had better add to it a plea for "civilized, empathetic, tolerant discussion." Discussion *per se* will hardly be avoidable. Maybe if we start the discussion "early" (if we can still consider ourselves at that point), some civility can be mustered - and then maintained. Rifkin's voice is civilized, and so his book is a good place to start.

Dwight D. Murphey

Hyperculture: The Human Cost of Speed
Stephen Bertman
Praeger, Westport, CT, 1998

In this study of the effects of "the accelerating pace of American society, Stephen Bertman makes good use of the areas of study inherent in his position as Professor of Classical and Modern Languages, Literatures and Civilizations at the University of Windsor in Canada. Foremost, this is a socio-psychological study of the impact of speed on various aspects of society, but it is presented with a flair and richness of sensibility that comes from his many well-placed classical and literary allusions. Early on, he tells us the story of Daedalus and his son Icarus (who in his exuberance for flight flew so close to the sun that the wax melted on his artificial wings, causing him to fall into the sea). By such an image, Bertman warns us that the dizzying pace of modern life, while exhilarating, is fraught with danger. His use of this and other stories makes for an engrossingly readable account.

An analysis of complex phenomena on the basis of one salient causal factor necessarily has the strength that comes from extensively elaborating the central theme. At the same time, it needs to be understood as incomplete to the extent that it leaves out other causal factors that are all mixed together in a far greater complexity than the single-shot explanation admits. This mix allows for a lucid but only partial exposition.

The theme of *Hyperculture* is that various factors have come together to stress speed and newness in American life, resulting in a

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"now"-oriented society that is so consumed by the present that it has lost its sense of continuity with the past and the future. Americans live in a culture of instant gratification, sensationalism and transience. These have the effect of eroding "the essence of our most fundamental values."

The effects are everywhere to be seen. People suffer stress, causing burn-out and a flight from reality through such routes as drugs, sensual gratification, and a yearning to oversimplify the increasing complexity that constantly confronts them. Reason is subverted as the senses become primary. Individuals are transformed by the loss of solitude and of non-materialistic modes of being. Families are eroded by an expectation of impermanence, by the stresses felt by two-career couples, and by the diminution of the necessary traits of self-sacrifice and patience. Society is transformed into an economy of consumption, with everything made commercial. And humanity estranges itself from the environment as it continues to distance itself from nature. This is, of course, a too-quick summary, since Bertman has much to say about each of these points and many others.

It's obvious that his critique comes from the long-standing literary and philosophical tradition - which in the eighteenth and nineteenth centuries fed into both Left and Right in Europe and America - that refuses to accept a market society, consumerism, and Carlyle's "cash-nexus" as what is best for human life. There is much of Rousseau in Bertman's analysis, as we see when he says that "the civilization we possess was purchased at a high price, for to attain it we had to become expatriates from nature." That is a pretty good summary of Rousseau's message in the *Discourse on the Origins of Inequality*. When, a century after Rousseau, Henry David Thoreau wrote that "the mass of men live lives of quiet desperation," that, too, was a pretty good statement of *Hyperculture's* theme, even though Bertman has updated it to the present. It is a mistake, then, to see the critique of "accelerated pace" as merely a critique of a great many recent developments; more fundamentally, it is a criticism of modernity itself.

When we mention that an analysis based on a single factor has the weakness of omitting much that should be said, we have in mind a good many other forces that deserve to be taken into account. Bertman's analysis of the over-preoccupation with the present, a

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preoccupation that ignores the past and forms little sense of the future, would be given extra richness, say, if Edward Banfield's insights in *The Unheavenly City* were included.

Banfield, a sociologist, explained the plight of the chronically poor as largely stemming from a limitation in their perception of time. The chronically poor (as distinct from the waves of immigrants who were poor in the first generation and then moved on) show little concern, Banfield observed, beyond the present. A second example would be Bertman's failure to take the modern "alienation of the intellectual" into account as a source not merely for the forgetting of the American past but for the assault upon it. One reason young Americans today revere very little about the American past is that most of what they are taught about it is that it was despicable. Far from being given an image of its idealism and heroics, they are presented with an alienated view of virtually all aspects of American history.

Such omissions don't invalidate a study of the effects of speed and newness on individuals and culture, but they warn that there are other dimensions that need to be understood for a more complete understanding. ("More complete" is the best we can aspire to. Can a mere mortal ever hope for a *complete* understanding in a subject-area such as this?)

Hyperculture is one of many books exploring today's fast-changing society, grappling with the issues on the cutting edge. Whatever the truth of the saying a few years ago that "we are all Keynesians now," it is certainly true that we all must rapidly become "futurists now" if we are to have any hope of speaking to the issues of our time. Bertman's book presents an important and valuable part of the mosaic.

Dwight D. Murphey

Why Race Matters: Race Differences and What They Mean
Michael Levin
Praeger, Westport, CT. 1997

Levin's new book, *Why Race Matters*, is probably one of the most politically incorrect books of recent years. It argues both that there are racial differences in ability and personality, and that these

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differences matter for public policy. Professor Levin's views have been controversial for years, and he has successfully defended in court his right to express them.[1]

The book is organized into three major sections. The first documents that differences exist and that they are genetic. The second and third discuss why these differences matter for economic and social policy, hence the title of *Why Race Matters*. The empirical evidence for racial differences is strong, although seldom discussed in the academic literature, being often dismissed as due to stereotypes. Levin deals with the stereotype issue, asking why over the centuries certain beliefs about race have prevailed. The simplest answer is observation; the traits have been repeatedly observed. A summary of the data on intelligence describes the differences between races.

As a professional philosopher, Levin frequently focuses on issues of definition and logic. As an example of Levin's style, he says (p. 51), "Calling athletic ability ... "intelligence" no more changes the intelligence of athletes, ... than call dogs 'horses" will make them whinny. The world is what it is no matter how it is described. That is why, when dispute focuses on a word, the word is best dropped and the facts restated without it. Should someone insist that whether Albert Einstein or Babe Ruth were equally intelligent is culture-relative, it is best to say that Einstein was better ... at abstract reasoning, and Ruth better ... at hitting baseballs, whatever these traits are called."

Levin points out how many who "make a point in argument of not understanding 'intelligence' invariably understand it in all other contexts." One of the examples he cites is Gould (who pretended not to understand the concept) who in his book *The Mismeasure of Man*[2] asserts that psychometricians had "reified" intelligence. But Levin points out that whether an abstraction like intelligence is useful depends on whether it correlates with other variables of interest, and that intelligence does meet this criterion. Speaking as a philosopher, Levin tells us that positivism or operationalism (the idea that concepts have no meaning beyond the operations used to measure them) has become unpopular in philosophy of science circles. As he

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[1] See Pearson, R. (1997) *Race, Intelligence, and Bias in Academe*, Washington, D.C.: Scott-Townsend, for an account of the pressures that Levin had to face.

[2] Gould, S. (1981) *The Mismeasure of Man*. New York: Norton.

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puts it. "At the present time, an objection like 'IQ tests predict' but so what?'" would be dismissed as doctrinaire in any context other than psychometrics. Nobody belittles Maxwell's equations by saying 'they predict radio waves, but so what?" Radio waves are taken to show the existence of the fields these equations describe. Likewise, the correlates of IQ are important, not because correlation exhausts scientific knowledge, but for the opposite reason, that they indicate the underlying reality.

Having argued that intelligence is a meaningful concept, Levin then goes on to deal with the evidence for racial differences in intelligence and related questions. He takes up test bias, and the claim that the racial differences are only due to the tests being biased.

Taking Gould on again, Levin points out that even Gould[3] agreed that tests are not biased against blacks in the statistical sense (as Levin points out, this admission is in effect a retraction of Chapter 5 of Gould's earlier 1981 book), but argued that people are really interested in whether "blacks average 85 and whites 100 because society treat blacks unfairly". This is replacing the usual meaning of bias with a new question. As Levin points out repeatedly, an effect can be real but unjustly caused, and whether or not an effect is real, and whether it is justly caused are logically separate questions.

He presents evidence that tests predict academic performance and job performance, as well for blacks as for whites. Interestingly, black performance is usually over-predicted, not under-predicted. Given the same test score, the blacks typically perform worse on the job or in employment.

There are a number of reasons for this. As was pointed out in this journal,[4] Bayes' Theorem implies that the best estimate of the true ability of a person will be a suitably weighted average of their ability as tested, and the average ability of the group. This theorem has the politically unfortunate implication that when seeking the best employees, those from a low scoring group should have points deducted. Levin cites the working paper version of this, but due

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[3] Gould, S. (1994) "Curveball". *The New Yorker*, Nov. 28, 139-149.

[4] See Miller, E. (1994) "The Relevance of Group Membership for Personnel Selection: A Demonstration Using Bayes Theorem", *Journal of Social, Political, and Economic Studies*, Vol. 19 Fall 1994 No. 3, 323-359.

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probably to the time delays between the first drafts of his book and its final publication, failed to update the reference.

As to evidence that the tests are unbiased, it is found that blacks lag whites by about two years in their performance on tests and Asians by three years, but that the nature of the errors made (and the relative difficulty of the questions) at the same level of mental ability are similar.[5] If differential exposure to "white culture" is the problem, the nature of the errors made and the relative difficulty of questions would vary greatly between the races, but they do not. Also, while it is plausible that blacks are exposed to a somewhat different culture than those (typically middle-class whites) that make up the tests, the Asians are even more culturally different and yet outperform whites.

The racial difference in IQ is well-known to specialists (even if not to the media) and is well-discussed by them. There has been less attention paid to racial differences in personality. Levin describes two such differences which are of special interest.

One concerns self-esteem. Contrary to popular belief, studies show black self-esteem to typically be higher than that of whites. The widespread belief to the contrary among the intelligentsia may be because these people believe they would have low self-esteem if they had the status and school abilities of blacks.

Another very important racial difference is in time preference. In a classic experiment, children were asked to fill in a very simple questionnaire, and then offered a choice of rewards. They could have a small piece of candy now, or a bigger piece next week. Black children in Trinidad were found to prefer the immediate piece more than Indian (i.e. ancestors from India) children in Trinidad.[6] Banfield[7] has shown how many life-decisions made differently by inhabitants of inner cities can be traced to differences in time preference. For instance, deciding not to study, or to steal a purse now, involves trading off immediate gratification for future gratification. Levin states that blacks watch 73 hours of TV per week versus whites' 50 hours, and spend twice as much per capita on movies in spite of lower incomes, which he implies is related to this

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[5] Jensen, A. R. (1980) *Bias in Mental Testing*. London: Methuen.

[6] Mischael, W. (1961) Father-absence and delay of gratification: cross-cultural comparisons. *Journal of Abnormal and Social Psychology* 63, 1, 116-124.

[7] Banfield, E. (1974) *The Unheavenly City Revisited*. Boston: Little Brown.

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trait. The fact that, even at the same income level, blacks have typically accumulated less wealth than whites or Asians appears to be another reflection of this trait.

After an introduction to basic genetics, Levin presents the evidence (from twin and adoption studies typically) that within races, intelligence and personality traits show considerable variability. He starts out by quoting the Snyderman and Rothman[8] study which showed three times as many experts thought the difference between blacks and whites in intelligence was both genetic and environmental as thought it was only environmental. Even among the editors and journalists surveyed, 27% were in the both genetic and environmental camp.

Levin then goes on to present some of the evidence that has persuaded so many experts that at least part of the differences between the race are genetic.[9] He starts by pointing out that racial differences in intelligence appear from about age three. Many of the cultural explanations (schooling, for instance) have not had an effect before then. He recognizes the theoretical possibility that genetics are very important for within-race differences (as is well documented), but that the causes for racial differences are wholly environmental.

With a wholly environmental theory it is implausible that the heritability of a specific test would be correlated with the racial differences in that test. Yet it has been found that the mental tests that are most heritable are those that show the greatest black-white differences. Environmental factors would normally be expected to be greater for vocabulary tests than for picture-arranging, but the racial differences on vocabulary tests are less, even though one would expect vocabulary to be among the most culture-sensitive of tests.

Professor Levin is a professional philosopher (City University of New York). His views on philosophy are interesting, and to me at least, original. His approach is sociobiological and assumes that human nature evolved. Recognizing that moral feelings have probably evolved, he also recognizes the possibility that they may be different in different races. He feels that the white race has evolved to have a

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[8] Snyderman, M. and Rothman, S. (1988) *The IQ Controversy, the Media and Public Policy*. New Brunswick, Transaction Books.

[9] For the best and most up-to-date work on this, see Jensen, A. R. (1998) *The G Factor*. Westport: Praeger

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lower rate of time preference (i.e. gives higher weights to future events), and a greater degree of altruism and willingness to obey rules. He discusses the possibility that the hunting required for survival in prehistoric Europe required group cooperation, and that this led to greater altruism among its inhabitants. Gathering required less cooperation. At one point (p.176) he argues that "Since it is easier for female gatherers in a warm climate to support their offspring, there will be less intense selection for females who prefer fidelity in their mates, hence, by what Darwin called sexual selection, less intense selection for males disposed to conform to this female demand." This is part of Miller's (1994) differential paternal investment theory, which Levin had seen and discussed with the author, although it is not mentioned. Since Levin believes there is no logical basis for saying some beliefs or traits are better than others, he notes "Hunters may regard gatherer sexual morality as loose, while gatherers regard hunter sexual morality as inhibited."

One of the interesting ideas in the book is that the degree of altruism and the rates of time preference in a population should vary together. The author goes through the evolutionary logic of cooperation, discussing the famous prisoner's dilemma game. He recognizes that in such situations non-cooperating (cheating) is optimal, if one will never see a person again. However, the environments humans evolved in were ones where people lived in small bands. They regularly saw the same people repeatedly. Cheating in such situations hurts in the long run, because others will not cooperate with the cheats next time they need help.

The last part of the book deals with questions of why race matters. Here again, Levin's role as philosopher comes in. He argues that whether the causes of black poverty and suffering are genetic is indeed important. If it is due to something that white people did, possibly the blacks have some claim for compensation (although the question would still have to be addressed of whether the whites now living were the ones who owed the compensation). However, Professor Levin argues that the black problems are due to genetic causes. Since no one is responsible for their own genes or for the genes of other people, this absolves the white community (and white individuals) of responsibility for black problems.

He uses the example of a man with an inherited limp in one leg. Out of politeness we may pretend not to notice his handicap.

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However, if he sues us claiming we caused his limp, it is a perfectly proper defense to present evidence that he was born with the problem.

Levin ends his book with a discussion of crime, which deals both with the causes of racial differences in crime (after documenting that they do indeed exist), and with the provocative idea that perhaps it would be justified for citizens and for the police to take the known racial differences into account. *Why Race Matters* is possibly the most politically incorrect academic book of recent years. However, in spite of this the reader will find many provocative facts and ideas in it.

Edward M. Miller

The Economic Aspects of Spanish Imperialism in America, 1482-1810
John R. Fisher
Liverpool University Press, 1997

This journal does not review many historical works, but recognizes that history unveils the causal forces that shape the present and future. Reading this book we were reminded once again of the specific capabilities and weaknesses of the European nations who explored and colonized vast areas of the world with such courage and initiative. For a brief time they achieved world leadership and virtual world domination, but their achievements eventually turned against them due to their own political short-sightedness and fatal tendency to waste their energies and resources in futile wars against each other. Not only did the Spanish kings melt down rare and exotic works of art shipped home from the Americas, in order to convert there things into bullion to pay for their European wars (or in part to defend themselves against other European powers that were jealous of their new-found wealth), but they also fought against each other in the Americas, and other European nations even encouraged insurrection by slaves and creoles against the Spanish and Portuguese settlers. Thus the prosperity which marked eighteenth century Spanish, Portuguese and even French American colonies was replaced by economic ruin, when due to European wars and revolutions, the colonial powers were finally overthrown throughout the mainland of South and Central America, and in many parts of the Caribbean, notably Haiti.

Steven T. George

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THE ABM TREATY CHARADE:
A Study in Elite Illusion and Delusion

William T. Lee

Former CIA and DIA analyst of Soviet and U.S. missile programs

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